



**Content Ownership and Innovation Performance: Lessons from the Global Creative  
Industry**

A thesis submitted in fulfilment of the requirements for the degree of Doctor of Philosophy

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## **Declaration**

*I certify that except where due acknowledgement has been made, the work is that of the author alone; the work has not been submitted previously, in whole or in part, to qualify for any other academic award; the content of the project is the result of work which has been carried out since the official commencement date of the approved research program; any editorial work, paid or unpaid, carried out by a third party is acknowledged; and, ethics procedures and guidelines have been followed. I acknowledge the support I have received for my research through the provision of an Australian Government Research Training Program Scholarship.*

Michael (Qi Jun) Zhou

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*Nonetheless, I shall do my best to extend my heartfelt appreciation to everyone who has guided me along this incredible journey.*

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## Table of Contents

1. INTRODUCTION .....	1
1.1 Main Theoretical Themes Regarding Ownership in the Creative Industry .....	4
1.2 Introduction of Chapters .....	5
2. OWNERSHIP IN THE VIRTUAL-WORLD AND THE IMPLICATIONS FOR LONG-TERM USER-INNOVATION SUCCESS .....	8
2.1 INTRODUCTION.....	9
2.2 VIRTUAL-WORLD AND OWNERSHIP .....	11
2.2.1 Ownership.....	12
2.2.2 User Generated Content.....	14
2.3 A FRAMEWORK OF VIRTUAL-WORLD OWNERSHIP.....	16
2.4 RESEARCH METHOD.....	17
2.5 RESULTS.....	22
2.5.1 Platform Ownership.....	22
2.5.2 Content Ownership .....	30
2.5.3 Summary of Key Tensions that Hinder User-Innovation Success .....	35
2.6 DISCUSSION .....	39
2.6.1 Implication for Theory and User-Innovation Practice.....	42
2.7 CONCLUSION .....	43
3. THE EFFECT OF INTEGRATED MOTION PICTURE AND CINEMA OWNERSHIP ON CONTENT PERFORMANCE: FROM PROHIBITED PRACTICE TO COMPETITIVE ADVANTAGE .....	46

3.1 INTRODUCTION.....	47
3.2 THE GLOBAL FILM INDUSTRY .....	49
3.3 THEORETICAL FRAMEWORK .....	53
3.3.1 Hollywood Dominance.....	54
3.3.2 Vertical Integration.....	55
3.3.3 Film Performance Through Vertical Integration is Time Dependent.....	59
3.4 METHODOLOGY .....	61
3.4.1 Data Collection .....	61
3.4.2 Variables .....	62
3.5 RESULTS.....	64
3.6 DISCUSSION AND CONCLUSION .....	70
4. STRATEGIC-INTENT OF CHINESE ACQUISITIONS IN WESTERN CULTURAL INDUSTRIES: A MIXED METHOD STUDY OF DALIAN WANDA .....	75
4.1 INTRODUCTION.....	76
4.1.1 Cultural Industries .....	77
4.1.2 The Wanda Factor .....	78
4.2 STRATEGIC-INTENT: FRAMEWORK AND PROPOSITIONS .....	79
4.2.1 Political Intent.....	84
4.2.2 Business and Financial Intent .....	85
4.3 METHODS.....	86
4.4 STUDY 1.....	88
4.4.1 Data Collection .....	88

4.4.2 Results .....	89
4.5 STUDY 2.....	101
4.5.1 Data Collection .....	101
4.5.2 Results .....	102
4.6 STUDY 3.....	106
4.6.1 Data Collection .....	106
4.6.2 Results .....	107
4.7 DISCUSSION .....	110
4.8 IMPLICATIONS FOR THEORY .....	117
4.9 CONCLUSION .....	118
5. CONCLUSION .....	119
5.1 MAIN FINDINGS.....	119
5.2 IMPLICATIONS FOR THE MAIN THEORETICAL THEMES .....	121
5.3 IMPLICATION FOR PRACTICE.....	122
5.4 FURTHER RESEARCH.....	124
6. REFERENCE LIST .....	127

## LIST OF FREQUENTLY USED ABBREVIATIONS

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AACTA	The Australian Academy of Cinema and Television Arts Awards
Act	Actor
Acq.	Acquisition
AMC	AMC Theatres
AUD	Australian dollar
AUS	Commonwealth of Australia
AUS Act	Films containing Australian actors
AUS Loct	Films that were wholly or partly filmed in Australia
AUS Star	Films containing Australian actors in IMDB's list of top 60 Australian actors
Box Of	Box-office
Budget	Film budget
CNY	Chinese yuan
Dendy	Dendy Cinemas
EULA	End-user license agreement
F.Supp	Federal supplement
G	Films classified as General in Australia by the Department of Communications and the Arts
H	Hypothesis
Hollywood	The Hollywood major studios (Universal, Paramount, Fox, Metro-Goldwyn-Mayer, Warner Brothers, Columbia, United Artist and Disney)
Hoyts	Hoyts Cinema



Icon	Icon Productions
IMDB	Internet Movie Database
Integ	Vertical integration
KTV	Karaoke television
Legendary	Legendary Studio
Linden	Linden Lab
LLC	Limited liability company
M	Films classified as “Mature” in Australia by the Department of Communications and the Arts
MMOGs	Massive, multiplayer, online games
MPDAA	Motion Picture Distributors Association of Australia
OSCAR	Academy Awards presented by the Academy of Motion Picture Arts and Sciences
Ops.	Operations
PG	Films classified as “Parental Guidance” in Australia by the Department of Communications and the Arts
ROA	Return on asset
ROE	Return on rquity
Sc	Score
Scr	Screen
Sequel	Film sequel
Sht Loc	Shooting location
SPSS	Statistical Package for the Social Sciences

Std Dev.	Standard deviation
TOS	Terms-of-service
USD	U.S. dollar
Val	Value
VIC	Vertical industry connection
Village	Village Roadshow
VR	Virtual reality
Vs	Versus
Wanda	Dalian Wanda
Wang	Wang Jianlin
WK	Week

## LIST OF TABLES

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2.1	Initial Theoretical Framework for Virtual-world ownership Dimensions	16
2.2	Case Sampling Data	20
2.3	Summary of Tensions in Virtual-World that Hinders User-Innovation Success	36
3.1	Description of Variables	63
3.2	Correlation Table to Establish Link between Vertical Integration and Film Performance	65
3.3	Regression Results to Establish Link between Vertical Integration and Film Performance	67
4.1	Wanda's Completed Foreign Acquisition in the Film Industry	79
4.2	Representative Strategic-Intent Studies	80
4.3	Pre-acquisition vs. Post-acquisition Financials for AMC	102
4.4	Pre-acquisition vs. Post-acquisition Financials for Hoyts	103
4.5	Pre-acquisition vs. Post-acquisition Financials for Wanda	104
4.6	Pre-Hoyts Acquisition vs. Post-Hoyts Acquisition Financials for Wanda	104

## LIST OF FIGURES

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2.1	Ownership Relationships Between the Platform and Content Owners with the Terms-of-Service	38
2.2	Sony's PlayStation VR Headset	44
3.1	Global Box-Office - All Films	50
4.1	Average Commercial and Non-Commercial Genres Exhibited in U.S. and Australian Cinemas	107
4.2	Number of Chinese Films Exhibited in U.S. and Australian Cinemas	108
4.3	Total Chinese Box-Office in U.S. and Australian Cinemas	109
4.4	Tensions Between Political Intent and Business and Financial Intent in Informing Corporate Strategy of Private Chinese Enterprises	112

## LIST OF PUBLICATIONS

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## 1. INTRODUCTION

The creative industry refers to a range of economic activities that is both knowledge intensive and labor intensive, particularly those requiring high concentrations of creative input and concerned with the generation or exploitation of knowledge and information (Howkins, 2001).

The creative industry provides nations with a two-fold benefit. First, the creative industry contributes significantly to the GDP of many nations. In Australia, the creative industry contributes more than \$90 billion to the economy annually, including over \$45 billion in annual GDP and \$3.2 billion in annual exports (Creative Industries Innovation Centre, 2013). Second, and quite uniquely, the creative industry provides nations with intangible benefits, such as the ability to spread soft power, boost national confidence, and acquire expertise in diverse areas such as the arts, entertainment, and technology. This thesis explores the impact of the ownership on user innovation, content performance and strategic intent in the global creative industry in three separate articles.

At its core, the creative industry encompasses many sub-industries and can be distinguished from other industries in that creativity is used as a medium for value creation. While all industries exhibit creative tendencies to some extent, the creative industry differs by the fact that creativity is at the core of the value-creation process. Nesta (2013) built a framework for defining creative occupations by their level of creative intensity. The criteria for assessment under the framework include five key components:

1. Novel process – does the role most commonly solve a problem in a novel way?
2. Mechanization resistant – the use of specialized labor within the creative industry shows that the creative labor force contributes something with no mechanical substitute.

3. Non-repetitiveness or non-uniform function – is the product likely to vary each time it is created due to the interplay of factors, skills, creative impulses, and learning?
4. Creative contribution to the value chain – is the outcome novel or creative irrespective of the context in which it is produced?
5. Interpretation, not mere transformation – does the role do more than merely shift the service or artefact's form or place or time?

Businesses operating within the creative industry are extremely varied (Peltoniemi, 2015); however, using Nesta's framework, I can categorize businesses operating in the creative industry into seven sub-industries. These include, 1) music and performing arts; 2) film, television, and radio; 3) advertising and marketing; 4) software and interactive content; 5) writing, publishing, and print media; 6) architecture; and 7) design and visual arts.

At the micro level, tensions exist between business and creativity (Bourdieu, 1984). Artistic and economic logics operating within the same environment find it difficult to achieve equilibrium (Eikhof and Haunschild, 2007; Glynn and Lounsbury, 2005). At the macro level, I find tensions between user-innovators and the platforms, firms, and governments. This thesis focuses on these macro-level tensions.

This thesis is with publication encompassing three unique articles examining ownership-to-performance links within the global creative industry. Each chapter explores a different ownership theme within the creative industry. The research questions I seek to answer in this thesis are as follow:

- 1) In Chapter 2, I explore how ownership in the virtual-world affects long-term user innovation success.

- 2) In Chapter 3, I determine the performance outcomes of bringing new films to market through a channel which includes owned cinemas (vertically integrated) versus a channel with only independent cinemas (non-integrated).
- 3) Finally, in Chapter 4, I answer whether the strategic-intent of transnational ownership of Western cinema assets by Chinese companies are made with business intent or political intent.

Ownership is a broad concept and can have many meanings within the creative industry context. Ownership can be described as a status or situation that confers on a person the greatest range of rights over certain owned property (Gaus, 2012). In addition, ownership is the determination of various rights and duties over certain properties (Bergström, 1999). The proliferation of new technology means that ownership is evolving. Various studies have examined ownership-to-performance links (Jensen and Meckling, 1976; Fama and Jensen, 1998; Levitt and Syverson, 2005; De Zwart, 2010). However, these studies show that performance outcomes that stem from ownership are not conclusive. Some studies show positive effects on performance while others show negative effects on performance (Bergström, 1999; Eisenberg, 1999; Baker et al., 2002; Crabb, 2005). What I find from these studies is that the ownership-to-performance benefits are heavily dependent on how ownership and performance is defined and measured. Within the creative industry context, ownership has multiple dimensions. For example, ownership can cross into another dimension in the form of virtual worlds. In addition, ownership of value chains in film can allow narratives to be spread beyond national borders and extend a nation's global influence. All these exciting advances in technology and innovation are happening within the creative industry with ownership as a binding theme.

This thesis therefore examines ownership in the creative industry given the industry's rapid growth and rising importance as a driver of the global economy in the twenty-first



century. The creative industry is also one of the few industries which can affect people's views and thus can impact state institutions.

### **1.1 Main Theoretical Themes Regarding Ownership in the Creative Industry**

A major theme in this thesis is ownership. Different ownership themes are presented in the three papers from unique perspectives within the global creative industry. These include: 1) ownership in the virtual-world, 2) ownership of the value chain in film making, and 3) ownership of strategic foreign cinema assets.

The normative concept of ownership is generally universally understood. Ordinarily, ownership is a tool used by governments, businesses, and individuals to increase wealth and overall financial performance. In business, ownership spans across all industries, sectors, and geographies and is employed by both large and small firms alike. Ownership in the creative industry both exhibits these standard ownership traits and goes further in providing tangible and intangible benefits for the owner. In the creative industry, one can extract tangible financial gain from intangible assets such as ownership in the virtual-world. Likewise, intangible benefits can be extracted from tangible assets, as in the case of foreign acquisitions. Thus, it can be theorized that the concept of ownership as it applies to the creative industry is complex and poorly understood.

The first theme in this thesis is ownership in the virtual-world. Ownership is an essential motivator of sustained and ongoing user-innovation. Owning something often involves giving consideration to an item that result in the transfer of rights to the purchaser, who can then deal with the purchased item. This preconceived notion of ownership cannot apply equally in the virtual-world because the rights ordinarily attached to such transactions are not apparent (Burk, 2016). It is often not clear what type of right is attached to virtual-world purchases – whether it is a license to use or ownership of an asset (albeit a virtual

asset). One major obstacle inhibiting the growth of virtual ownership surrounds the question of how to extract virtual assets. Ordinarily, virtual users can convert virtual assets into real-world money through an exchange system. However, in cases where a platform shuts down a user's accounts, the inability to extract assets becomes a significant source of tension between content owners and the platform.

The second theme in this thesis is ownership of the value chain in film making. That is, it concerns whether ownership of the value chain affects a film's financial performance. This question dates back to Berle and Means (1932), who first posited that the separation of ownership reduces management incentive to maximize corporate efficiency. This was subsequently refined by Jensen and Meckling (1976) into the theory of the corporate ownership structure, which is better known as "agency theory". The central tenants of agency theory concern the alignment of varying interests through ownership. While the link between ownership and performance has been examined to some depth, mostly in the context of ownership's effect on firm share price, few studies have been done on the topic in the creative industry (Gemser et al., 2012).

The third theme in this thesis is the strategic-intent of foreign ownership of cinema assets by Chinese firms. Existing studies of foreign acquisitions have focused on the resultant financial performance of the acquired asset. Limited attention has been given to whether alternative motivations may exist for owning foreign assets (such as political intent). This is particularly relevant in the context of the creative industry, as it is one of the few industries which can change viewpoints and affect state institutions.

## **1.2 Introduction of Chapters**

This thesis is a collection of five studies contained in three articles which have been done in close collaboration with my supervisors, Professor Mark Leenders and Dr. Ling Mei

Cong. Both quantitative and qualitative research methods have been employed. First, multiple-case-study analysis was used to determine the ownership tensions between user-innovators and the platform in the virtual-world. Second, multiple regression analyses were used to determine financial-performance improvements in films made through an integrated value chain versus films made through a non-integrated value chain. Third, inductive analysis using mixed methods was employed to determine the strategic-intent of foreign acquisitions made by firms from emerging economies in the creative industry.

This thesis examines ownership in a holistic approach. Each of the three articles explores one aspect of the ownership-to-performance paradigm. These aspects are ultimately intertwined and relational. The first article in Chapter 2 explores the concept of content ownership. I then transition to Chapter 3 by examining ownership of the distribution channels and how this influences performance. Chapter 4 considers the notion of transnational ownership and how nations and firms pursue ownership through political and business intent.

This thesis is structured as follows. The first article (Chapter 2) focuses on the relationship between user-innovators and the platform within the virtual-world and how ownership of virtual-world assets is a source of tension. This Chapter argues that the separation of content and platform ownership and their inherent interdependencies are sources of ownership tensions which pose significant challenges to entrepreneurs. In addition, the virtual-world business model favors the platform's ownership rights while undermining other kinds of competing ownership interests. The current structures around ownership rights and control seem detrimental to successful business creation, profitable technology development, and long-term user-innovation success. In-depth case-studies of virtual-user-innovators are used to understand the role of ownership ambiguity in relation to success in a virtual-environment. The data consists of transcripts from court cases (1,279 pages), blogs, interviews, and expert commentary regarding six virtual-user-innovators.

The second article (Chapter 3) seeks to determine the financial-performance outcome of bringing motion-pictures to market for films produced through an integrated value chain versus that of similar films which use matched samples produced through a non-integrated value chain. The article aims to promote new governance insight and to create management awareness of how ownership affects content performance and downstream synergies for channel partners. It is argued that ownership of the value chain has a positive effect on the financial performance of the films.

The third article (Chapter 4) examines the strategic-intent of foreign acquisitions made by the Chinese firm Dalian Wanda in the Western film industry. The chapter explores alternative theories and tests hypothesis based on business, financial, and political intent for a firm's Western acquisitions. Here, it is argued that, for the most part, acquisitions made by private Chinese firms in the West are for non-political purpose. This article encompasses three separate studies which use a mixed-methods approach to triangulate strategic-intent factors.

The different findings of the studies and the relationships between them are discussed in the conclusion (Chapter 5). Also, implications for theory and practice are presented. I finalize the thesis with suggestions for further research.

## **2. OWNERSHIP IN THE VIRTUAL-WORLD AND THE IMPLICATIONS FOR LONG-TERM USER-INNOVATION SUCCESS**

### **Abstract**

Virtual-worlds have become arenas for user-generated innovation, enabling a new wave of entrepreneurs to extract real-world value from virtual property. Interestingly, virtual-world property and revenue generation are understudied, and the concept of ownership in the meta-verse is distinct and more complex than it is in the real-world. In this article, virtual-user-innovation and ownership are conceptualized in two layers: 1) the content, and 2) the virtual platform. In-depth case-studies of virtual-user-innovators are used to understand the role of ownership ambiguity in relation to success in a virtual-environment. The data consists of transcripts from courts (1,279 pages), blogs, interviews, and expert commentary regarding six virtual-user-innovators. The findings reveal that the separation of content and platform ownership and their inherent interdependencies are sources of ownership tensions which pose significant challenges to entrepreneurs. Moreover, the virtual-world business model favors the platform's ownership rights while undermining other kinds of competing ownership interests. The current structures around ownership rights and control seem detrimental to successful business creation, profitable technology development, and long-term user-innovation success. The implications for theory and the practical implications for virtual entrepreneurs are discussed.

**Keywords:** user-innovation, Second Life, virtual-world, ownership.

## 2.1 INTRODUCTION

Millions of people around the world participate in the virtual-world through platforms like Second Life and other massive, multiplayer, online games (MMOGs) (Pharr, 2011). These virtual-worlds have evolved from being extensions of single-player games (Young, 2009) into self-sufficient virtual societies where commerce, trade, and transacting are not only available but also encouraged (Kock, 2008; Chandra and Leenders, 2012; Alahuhta et al., 2016; Nambisan et al., 2017). The growth of virtual-worlds – supported by the ongoing proliferation of virtual-reality technology – provides a new wave of entrepreneurs and businesses with opportunities to innovate based on their creative skills and knowledge in areas such as product design, virtual tourism, space and environmental aesthetics, social exchange and simulation. This Chapter provides insight into how ownership ambiguity in the virtual-environment affects long-term user-innovation success.

Virtual-worlds are growing, but they are still in an early stage in terms of economic size and impact. As a result, most virtual-technology entrepreneurs start out as users of a virtual platform who add services or product content. User-innovation is an important pathway to entrepreneurship. Research shows that users are an important source of innovation, as user-innovators tend to understand the product application better than non-users (von Hippel, 1986). Users are uniquely positioned to identify problems and increase the usability of products and content that product developers often cannot. The ability to claim ownership and extract value from a product or service is an important factor in any pathway to entrepreneurship.

The current regulatory framework dealing with ownership is based mostly on real-world issues, cases, and transactional situations. Previous user-innovation studies have often focused on product transactions in real-world settings (e.g., mountain biking (Lüthje et al.,

2005), rodeo kayaking (Hienerth, 2006), kite-surfing equipment (Schreier and Prügl, 2008), and rowing (Tietze et al., 2012)). More recent user-innovation studies have examined the phenomenon of transfer of functionality rather than control (Tietze et al., 2015). Whereas previous studies have looked at user-innovation through an ownership lens based on control, more recent functionality studies look at user-innovation through the perspective of shared ownership. That is, they have to do with the use and enjoyment of a product rather than control. For example, consider Uber and Airbnb (Tietze et al., 2015).

In the virtual-world, virtual users are uniquely positioned to create solutions through a community-based, shared-innovation approach (Fuller et al., 2006). Like the real-world, virtual-world user-innovation requires that users utilize their expertise and skills to produce products tailored to the virtual consumer. That is, user-innovation has both an intellectual contribution component and a time investment component. Through this process, the user-innovator adds value by satisfying the needs of the virtual consumer and improving the value-creation process (Alahuhta et al., 2016). If the user-innovation process is successful, then the value of the product is recognized by virtual-world consumers through their willingness to buy the goods. The user-innovator can therefore generate economic benefit from the innovation process and is motivated to engage in this process through the ability to extract personal economic rewards from the enterprise. Ownership is the primary tool that facilitates the extraction of economic benefit from virtual users' entrepreneurial pursuits.

Special challenges face virtual-world user-innovators. In the virtual-world, the innovation process often relies heavily on the platform, since virtual property is not independently transferrable. The platform acts as a base for all virtual-world user-innovation activities (Kohler et al., 2009). As such, there is a dependent relationship between the content owner and the platform owner with respect to ownership rights.

A number of previous user-innovation studies have examined user-innovation in the context of ownership through the lens of the sporting-equipment sector (e.g., mountain biking (Christian et al., 2006) and kayaking (Hienerth, 2006)). However, virtual-world user-innovation can be distinguished from these previous studies due to the need for other virtual-world parties to realize and extract the benefits for the user-innovator. Moreover, unlike in the real-world, the user-innovator's access to content is not exclusive, as it is entirely dependent on the ownership rights of the platform. These special boundary conditions for virtual-world entrepreneurs mean that there is a degree of prohibition from the platform in allowing entrepreneurs to fully generate substantive economic benefits freely – more so than in the real-world (Wessel, 1993; and Palmqvist et al., 2012).

In-depth case-studies are used to build key propositions regarding how user-innovation is affected by ownership in the virtual-world. The case-studies use data obtained from transcripts from virtual-world case law, expert commentary, interviews, discussions, news and blogs. It aims to inform virtual-world platforms and their innovating users about how virtual ownership is distinct from real-world ownership and about the pitfalls to undertaking user-innovation activities within the virtual-world and how to avoid them.

## **2.2 VIRTUAL-WORLD AND OWNERSHIP**

Understanding what constitutes a virtual-world is important given both its practical and theoretical implication. Schroeder (2008) describes a virtual-world as “*persistent online social spaces.*” That is, a virtual-world is “*a computer-generated display that allows or compels the user (or users) to have a sense of being present in an environment other than the one they are actually in, and to interact with that environment*” (Schroeder, 1996). Virtual-worlds can be distinguished from MMOGs in that their dominant purpose is to facilitate social interaction compared with an environment revolving around a central gaming narrative



(Steinkuehler and Williams, 2006). Thus, a virtual-world can be said, in summary, to utilize both software and hardware to enable interaction with a simulated, three-dimensional environment in real-time. This is achieved through input devices like monitor and keyboard. At the same time, the system provides a degree of immersion, of being physically present inside the virtual-world. Virtual-worlds also differ from virtual-environments such as app stores in that the creation, use, and extraction of property in a virtual-world depends on the platform's ownership rights, whereas no such requirement exists in a virtual-environment (Steinkuehler and Williams, 2006). This key distinction is important, because ownership in a virtual-environment reflects more closely society's normative understanding of the concept of ownership whereas virtual-world ownership is often poorly understood. The fact that the terms *virtual-world* and *virtual-environment* are often used interchangeably exacerbates the lack of understanding by virtual-world users regarding how ownership in the virtual-world differs from that of ownership in a virtual-environment.

### **2.2.1 Ownership**

Ownership is an essential motivator to sustained and ongoing user-innovation. Often owning something involves paying consideration for an item that result in the transfer of rights to the purchaser, who can then deal with the purchased item. This preconceived notion of ownership cannot apply equally in the virtual-world because the rights ordinarily attached to such transactions are not clearly apparent (Burk, 2016). It is often not clear what type of right is attached to virtual-world purchases.

Traditionally, ownership in the virtual-world has emphasized the element of possession as paramount, but this is slowly evolving. Today, virtual-world ownership falls into two distinct categories:

1. that in which all virtual-world property is owned by the platform and users have a license from the platform to use virtual property, and
2. that which allows users to own some virtual property but not others.

Whoever has possession of a property is deemed to be the owner. This approach is motivated by the developer's desire to avoid any unnecessary legal complications. For example, the terms-of-service for Blizzard's popular World of Warcraft states the following:

*"All rights and title in and to the Program and the Service (including without limitation any user accounts, titles, computer code, themes, objects, characters, character names) ...are owned by Blizzard or its licensors."* [Clause 4, World of Warcraft terms-of-use]

In cases in which users purchase an in-world item, what they are buying is not ownership of the item but rather a license from the developers to use the items subject to the respective terms-of-service. In essence, there has only been a transfer of control from the platform to the purchaser without a transfer of the suite of rights and legal protections one would normally expect to be included in such transactions. In the latter form of ownership, users are given intellectual property ownership rights to their creations, whereas the underlying platform code which gives life to those creations remains the property of the platform. One of the leading platforms that has allowed this form of ownership is Second Life, a focal point for this study. Until 29 April 2010, Clause 3.2 of the Second Life terms-of-service provided the following:

*"Linden Lab acknowledges and agrees that...you will retain any and all applicable copyright and other intellectual property rights with respect to any Content you create using the Service."* [Clause 3.2, Second Life terms-of-service – through 29 April 2010]

Though Clause 3.2 was amended after 29 April 2010, to provide a more traditional conception of virtual-world ownership, Second Life can still be distinguished from other license-based virtual-worlds by the fact that its dominant purpose is not a game but a place for user-generated creations which allows users to extract real-world value from virtual property. The Second Life website affirms this point by stating that, “*Second Life is a 3D world where everyone you see is a real person and every place you visit is built by people just like you.*” There are, however, significant complications for this type of ownership, both in defining the owned property and extracting the property independent of the platform (Harwood and Garry, 2014). This problem is unique to virtual-worlds and causes significant tensions between content owners and platforms when disputes arise.

### **2.2.2 User Generated Content**

The classical notion of ownership is built on the foundation of rights and control (Smith, 1993). Ownership rights can be exploited to generate benefits for the content owner without necessarily giving up the underlying rights to ownership. To own something is an independent exercise, and the ability to exercise the owner’s rights and control over the owned property is not generally subject to a third party. This differs in the case of virtual-world ownership and has implications for user-innovators who develop content in the virtual-world. While on the surface virtual ownership still has the attributes of requiring rights and control over the owned property, the existence of the property itself and the ability of the user to exercise those rights and control over the property is subject to the rights and control of the platform. Gebert et al., (2004) noted that, where users feel they have sufficient control over a situation, they are more likely to initiate innovative activities to improve the situation. A lack of control has been shown to reduce confidence and to diminish the desire to respond to observed inefficiencies (Shepherd et al., 2013). Too much control can sometimes lead to a

lack of openness and internal orientation, negatively affecting other stakeholders (O'Shannassy and Leenders, 2016).

Granting ownership to content creators is innovation maximizing, as it provides a mechanism for value appropriation, which then creates additional innovations. Balkin and Noveck, in their book, *The State of Play Law, Games, and Virtual Worlds* (2006) note the following:

*“[B]y safeguarding players’ intellectual property rights and giving them the right to make money from their creation, [developers] foster genuine creativity and the production of new objects and institutions, rather than mere crafting or tinkering.”* [Balkin and Noveck, 2006 at page 9]

The separation of ownership and control can also be a barrier to continued user-innovation (Nambisan et al., 2017). Users who merely have control but lack ownership are less likely to *“develop and realize ideas than users who possess both ownership and control”* (Tietze et al., 2015). Moreover, if users feel they have less control, *“their original aspiration to initiate change is subjectively reduced”* to the point at which they consider the change unnecessary (Tietz et al., 2015).

Virtual-world property can be very similar to tangible, real-world property, but the underlying rights work out differently (Moringiello, 2010). A virtual car in Second Life will be a three-dimensional representation of a real car and will behave like a real car: If a virtual user is driving the car, then no one else can drive the car. It is understandable that the concept of ownership in the virtual-world, being so similar to society’s normative understanding of tangible property, can induce users to think that normative notions of ownership apply to the virtual-world. The key difference between real-world ownership and virtual ownership is the dependency on the platform to exercise the ownership rights of the content owner. In recent

years, scholars have wrestled with the idea of how virtual property should be construed. Some argue for a utilitarian model, while others propose a Lockean natural-rights theory and still others view virtual property purely as an extension of intellectual property (Lastowka and Hunter, 2004). Regardless of which model best fits virtual ownership, most, if not all commentators “*agree that the law ought to recognize virtual property as property and vest someone with those rights*” (Vacca, 2008).

## 2.3 A FRAMEWORK OF VIRTUAL-WORLD OWNERSHIP

Virtual ownership can be divided into platform ownership and content ownership. In Table 2.1, the elements to ownership are broken down into rights and control to help us examine how these are affected by the interdependent nature of ownership between the platform and the content creators within virtual-worlds.

**Table 2.1: Initial Theoretical Framework for Virtual-world ownership Dimensions**

	<b>Rights</b>	<b>Control</b>
<b>Platform owner</b>	<ul style="list-style-type: none"> <li>• <i>Right to broad definition of terms-of-service</i></li> <li>• <i>Right to unilateral amendment of terms-of-service</i></li> <li>• <i>Right to terminate user accounts and confiscate virtual property</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>Control of in-world behavior and activities</i></li> <li>• <i>Control of dispute resolution mechanisms</i></li> </ul>

<b>Content owner</b>	<ul style="list-style-type: none"> <li>• <i>Uncertain whether virtual property is a legally recognized form of property</i></li> <li>• <i>Uncertain over meaning of virtual-world ownership</i></li> </ul> <p><i>Rights that should be vested to content owners:</i></p> <ul style="list-style-type: none"> <li>• <i>Right to intellectual property over virtual property</i></li> <li>• <i>Right to derive benefits from virtual property</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>Inability to extract virtual property into the real-world</i></li> <li>• <i>Susceptible to changes to the terms-of-service</i></li> </ul> <p><i>Control that should be vested to content owners:</i></p> <ul style="list-style-type: none"> <li>• <i>Control of virtual property mediated by interests of platform</i></li> </ul>
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Legal, regulatory, and governance perspectives will also be explored, with a particular focus on how dispute-resolution mechanisms in the virtual-world deal with disagreements regarding the terms-of-service.

## 2.4 RESEARCH METHOD

A multiple-case-study design (Shane, 2000; and Yin, 2003) is used to validate the initial conceptual ideas that emerge from the ownership tension in virtual-worlds. The comparative case-studies allow for investigation and analysis of how user-innovation and entrepreneurship are affected by ownership in the virtual-world (Eisenhardt and Graebner, 2007).

Extensive data for the case-study was collected from more than a thousand pages of transcripts from actual court cases, data from discussion boards, expert commentary, interviews, news items, and blogs. The diversity of the data sources creates a rich combination of data which can be used to validate and enrich the initial conceptual ideas around virtual ownership. Case law provides an opportunity to examine the circumstances

surrounding the disputes and provides exclusive insight into judicial thinking, expert witnesses, academic and scholarly insight and previous case law relevant to the topic in dispute.

The case materials include 1,279 pages of transcripts and materials from court proceedings in the last 10 years. Court transcripts offer rich information about both the dispute and the events that led to the disagreement. Case documents were collected from public sources such as JUSTIA (<https://dockets.justia.com/>), PACER (<https://www.pacer.gov/>), Digital Media Law Project (<http://www.dmlp.org/>), the U.S. Government Publishing Office (<https://gpo.gov/>), and legal case databases such as Lexis Nexis (<http://www.lexisnexis.com/>) and West Law (<http://westlaw.com>). Importantly, court transcripts are supplemented with other unstructured and less formalized data sources—such as commentary, news, interviews, discussions, and blogs—which provide opportunities for triangulation. The supplementary data was collected from various sources such as virtual-world discussion sites, Virtually Bind (<http://www.virtuallybind.com>), Modem World (<http://modemworld.me/>), and other sources which deal specifically with virtual-world topics. Moreover, interviews were conducted with virtual-world users to provide additional insight into the motivation and challenges of user-innovators in their user-innovation journey within virtual-worlds.

A key challenge in building theory on this topic involves case selection. Given the explorative nature of this Chapter and the lack of maturity of the subject matter, this is especially important. The objective is to find cases which are suitable for illustrating the logic of user-innovation and ownership in the virtual-world (Eisenhardt and Graebner, 2007). Given that the majority of existing jurisprudence on this topic relates to cases that were heard in U.S. courts, the U.S. is chosen as the jurisdiction for case sampling. The main selection criteria for cases include the following: 1) evidence of user-innovation evident in the scenario

of the case law, 2) evidence of user entrepreneurship in the scenario of the case law, and 3) issues involving virtual ownership in the scenario of the case law.

Table 2.2 sets out the selected cases together with a brief description of the case scenario in dispute. The six cases selected are, 1) *Eros*, 2) *Letherwood*, 3) *Minsky*, 4) *Ozimals*, 5) *Bragg*, and 6) *Evans*.



**Table 2.2: Case Sampling Data**

Case	Types of Court Documents	Total Pages	Case Summary	Disputes
<b>User-to-user disputes</b>				
<b>1. <i>Eros</i></b>	<ul style="list-style-type: none"> <li>- Summary of proceedings;</li> <li>- Written arguments</li> <li>- Summary of claims</li> <li>- Court ruling</li> </ul>	76 pages	Eros sold virtual objects in Second Life. He found other users selling unauthorized copies of his creation. Eros sued for intellectual property infringement.	<ul style="list-style-type: none"> <li>- Unauthorized sale of virtual object;</li> <li>- Infringement of user intellectual property rights.</li> </ul>
<b>2. <i>Leatherwood</i></b>	<ul style="list-style-type: none"> <li>- Summary of proceeding</li> <li>- Written arguments</li> <li>- Witness statements</li> <li>- Court ruling</li> </ul>	44 pages	Eros sold virtual objects in Second Life. Leatherwood found an exploit within Second Life which would allow him to duplicate items created by Eros. Eros sued for intellectual property infringement.	<ul style="list-style-type: none"> <li>- Sale of duplicate virtual object;</li> <li>- Infringement of user intellectual property rights.</li> </ul>
<b>3. <i>Minsky</i></b>	<ul style="list-style-type: none"> <li>- Summary of claim</li> <li>- Statement of the parties</li> <li>- Written arguments</li> </ul>	179 pages	Minsky owned the trademark SLART. Another resident ran an art gallery called SLART Garden. Minsky requested Linden Lab take action against SLART Garden. Linden Lab sought to have Minsky's	<ul style="list-style-type: none"> <li>- Infringement of user intellectual property rights - trademark.</li> </ul>

			trademark cancelled instead.	
<b>4. Ozimals</b>	<ul style="list-style-type: none"> <li>- Statements of the parties</li> <li>- Court ruling</li> <li>- Written arguments</li> </ul>	333 pages	Ozimals sold virtual bunnies in Second Life. Another user who sold virtual horses sued Ozimals for intellectual property infringement.	<ul style="list-style-type: none"> <li>- Infringement of user intellectual property rights.</li> </ul>
<b>User-to-platform disputes</b>				
<b>5. Bragg</b>	<ul style="list-style-type: none"> <li>- Witness statements</li> <li>- Summary of claims</li> <li>- Statements of the parties</li> <li>- Written arguments</li> </ul>	492 pages	Bragg found a way to buy virtual property below market value. Linden subsequently closed Bragg's account confiscating all his virtual property.	<ul style="list-style-type: none"> <li>- Purchase of virtual property;</li> <li>- Platform's unilateral termination of user's account and property.</li> </ul>
<b>6. Evans</b>	<ul style="list-style-type: none"> <li>- Summary of claim</li> <li>- Written arguments</li> <li>- Court ruling</li> </ul>	155 pages	Evans sued Linden Lab for amending its terms-of-service thus amending user rights to ownership. He claimed that Linden Lab had misled him into investing money into the platform.	<ul style="list-style-type: none"> <li>- Purchase of virtual property;</li> <li>- Platform's unilateral termination of user's account and property.</li> </ul>

The case-sampling information reflected in Table 2.2 exposes the diverse and varied case law sources used in this case-study. The first four cases involve user-to-user disputes while the last two cases represent user-to-platform disputes. From the cases identified, a broad range of hindrances within the virtual-world were explored in relation to user-innovation, the entrepreneurship process, and how virtual ownership affects this process. By considering the cases with reference to the competing ownership interests (platform ownership and content ownership), reasoned inferences can be drawn regarding how user-innovation and entrepreneurship in the virtual-world are affected by virtual ownership.

## **2.5 RESULTS**

As discussed, virtual-worlds like Second Life have relevance beyond a purely gaming or social context. As worlds like Second Life demonstrate, virtual-worlds have wide-ranging applications, including real-world applications. The analysis below starts by taking a platform angle.

### **2.5.1 Platform Ownership**

The terms-of-service regulates the relationship between the platform and content owners. It forms a binding contractual obligation not with the user base as a whole but rather with each individual user. The findings suggest that the terms-of-service is poorly suited for governing the relationship between user and platform. The rights the terms-of-service purports to protect (primarily, property rights), are rights that bind entire classes of individuals under a common understanding through the universal application of laws rather than rights, which bind individuals based on contract. In the case of user-to-user disputes—because contracts are designed to bind only those individuals who are party to the agreement—the platform’s handling of such disputes will be, at its core, a business decision rather than a legal one. Cases such as *Minsky* exhibit this trait, as the decision of the platform

to cancel the user's trademark is made with business expediency in mind. The platform's unilateral actions take advantage of the power imbalance between the content owner and the platform for which the platform fully exploits. Given that the virtual-world platform has a core objective of maximizing profit, its actions, regardless of what is contained in the terms-of-service, will be dictated by this objective rather than by any legal or governance basis. In addition, in user-to-platform disputes such as *Bragg*, the wide construct of the terms-of-service allows the platform significant power to control not only in-world behavior but also how disputes with the platform are handled.

#### ***2.5.1.1 Platform's right to unilateral amendment to terms-of-service***

The terms-of-service for virtual-worlds is often inflexible and rigid. The take-it-or-leave-it basis with which the terms-of-service is presented to users demonstrates that the provisions it contains are very much one-sided in favor of the platform. The analysis reveals that, as a result of cases like *Evans*, there are significant tensions in the platform's ability to unilaterally amend the relationship with individual users through amendments to the terms-of-service. In the real-world, a key incentive to ownership is its durability, stability and certainty. This is not the case in the virtual-world. In *Evans*, the complaint noted that, "*Linden made a calculated business decision to depart from the industry standard of denying that participants had any rights to virtual items, land and/or goods.*" Evans alleged that Philip Rosedale, the creator of Second Life, actively promoted virtual-property ownership within the platform to induce, according to the complaint, some 50,000 users to invest as much as USD\$100 million in the acquisition of virtual property. The complaint cited numerous press releases, media interviews, and statements made by Philip Rosedale that the platform would protect user rights to their property and not interfere with the exploitation or use of these virtual properties. Prior to *Evans*, Linden Lab had consistently touted the ability

of users to own property as one of the key benefits of using Second Life. The then CEO of Second Life noted the following in a *Guardian* interview:

*“We like to think of Second Life as ostensibly as real as a developing nation...The fundamental basis of a successful developing nation is property ownership...We started selling land free and clear, and we sold the title, and we made it extremely clear that we were not the owner of the virtual property.”*

[“Second Life and the Virtual Property Boom” *The Guardian*: Gamesblog, 14 June 2005]

The case also quotes Rosedale as saying: “*What you have in Second Life is real and it’s yours*” and “*It doesn’t belong to us. We have no claim to it.*” The case alleges that following the declaration, Linden Lab quietly changed its contract terms and the language on its website by deleting the word *ownership*. For example, the complaint noted that a question on the FAQ page had read “*why would I want to own land?*” which was quietly amended to read “*why would I want to have land?.*” This was, as the complaint noted: “*without consideration, the consumer’s knowledge or consent.*” This case was eventually settled, resulting in the payout of some USD\$172,000. *Evans* reveals the susceptibility of users to changes to the terms-of-service. Users who rely on certain rights and protections enshrined in the terms-of-service can have those rights amended unilaterally, often without their consent or knowledge. As such, there is less certainty of virtual-world ownership, as any legal protections afforded to content owners can be amended unilaterally by the platform. This leads to users feeling misled after they have invested heavily into a platform’s success.

The court’s view in both *Evans* and *Bragg* was that Philip Rosedale had actively rather than passively marketed Second Life by using ownership as a lure to attract users from other platforms. In *Bragg*, the court concluded as follows:

COURT: “[*Rosedale*] was the hawker sitting outside *Second Life*’s circus tent, singing the marvels of what was contained inside to entice customers to enter...Significantly, participants could even interact with *Rosedale*’s avatar on *Second Life* during town hall meetings that he held on the topic of virtual property.”

[*Bragg*, Inc 487 F. Supp 2d at 601]

Linden Lab contends the following:

DEFENSE COUNSEL: “[*S*]ellings land free and clear...and selling ‘title’ are metaphors or analogies to the concept of ownership of real property, as what is ‘owned’ with respect to ‘virtual land’ in *Second Life* is in fact a license to computing resources.”

[*Bragg*, 487 F.Supp. 2d 593]

Given that *Second Life*’s terms-of-service allows Linden Lab to amend its relationship with its users, users are often unaware that their rights to ownership can be unilaterally terminated. Such decisions are not motivated by ideals of fairness but by business efficacy. While the broad construct is not in itself a point of tension, it is this ability to unilaterally amend content owner rights that creates significant tension between the competing ownership interests. Cases like *Bragg*, which concern the unilateral confiscation of content owner property, and *Evans*, which deal with the unilateral amendment of user’s content ownership, all have at their roots the wide construct of the platform’s powers over the rights and control of content owners. Prior to 29 April 2010, *Second Life* users were able to own their creation within the platform. This was subsequently amended so that all in-world property is owned by the platform. In both *Bragg* and *Evans*, it was asserted that users had placed significant reliance on previous claims made by Linden Labs in deciding to invest in the platform and to contribute to the platform’s success. For example, Judge Robreno in

*Bragg* cited numerous statements made by Linden Labs which purported to induce users to sign up by offering “ownership” over their in-world creations.

*“Until now, any content created by users for persistent sate worlds...has become the property of the company developing and hosting the world...We believe our new policy recognizes the fact that persistent world users are making significant contributions to building these worlds and should be able to both own the content they create and share in the value that is created. The preservation of users’ property rights is a necessary step toward the emergence of genuinely real online worlds.”* [*Bragg* 487 F Supp 2d 593]

Although the terms-of-service allowed the platform to amend the ownership rights of content owners, it creates a tension between the competing ownership interests. In particular, when ownership interests are confiscated or cancelled without adequate compensation to the content owners, significant strain appears in the relationship between content owners and the platform. The ability of the platform to unilaterally amend content ownership rights creates uncertainty that inhibits future growth in innovation activities.

#### ***2.5.1.2 Platform’s control of dispute-resolution mechanisms***

There are significant power imbalances between the content owners and the platform. This is evident not only from the structure of the virtual-world but also from the contractual terms which bind the content owners. Structurally, administrative power within virtual-worlds is centralized in the platform whereas user power is dispersed amongst each virtual-world participant. Platform ownership can be likened to a governing authority except without any of the fundamental restrictions on the exercise of that authority. One-sided unilateral actions taken by the platform affect the rights of content owners, thereby creating conflict with the platform. In the memorandum notes of 30 May, 2007, Judge Robreno, presiding over

*Bragg*, on numerous occasions noted the unconscionability of Linden Lab’s terms-of-service and the power imbalance between the content owner and that of the platform. These comments include the following:

COURT: “...*overly harsh or one-sided results that “shock the conscience.”*”

COURT: “*In effect, the TOS [terms-of-service] provide Linden with a variety of one-sided remedies to resolve disputes while forcing its customers to arbitrate any disputes with Linden.*”

COURT: “...*neither in its briefing nor at oral argument did Linden even attempt to offer evidence that “business realities” justify the one-sidedness of the dispute resolution scheme that the TOS constructs in Linden’s favor.*”

COURT: “...*it is a one-sided means which tilts unfairly, in almost all situations in Linden’s favor.*”

[*Bragg*, 487 F.Supp 2d at paragraphs 75, 89, 104 and 107 respectively]

The terms-of-service is designed to stop users from bringing disputes against the platform. Operationally, the terms-of-service deters users from seeking remedy from courts by setting a high cost threshold to such an action. The Second Life terms-of-service forces users into arbitration with the platform. In considering whether the Second Life terms-of-service in *Bragg* was unconscionable, the court noted that it would cost users significantly more to resolve the disputes through mandatory arbitration as set out in the terms-of-service than to bring the same claims to court.

COURT: “*The court’s own estimate [of arbitration proceedings] place the amount that Bragg would likely have to advance at \$8,625, but they could*



*reach as high as \$13,687.50. Any of these figures are significantly greater than the costs that Bragg bears by filling his action in a state or federal court.”*

[Bragg, 487 F.Supp 2d at paragraph 95]

Cases like *Evans* and *Bragg* affect Linden Lab’s ability to give confidence to user-innovators within its platform. These cases reveal the inability under the current model to effectively manage and resolve user-to-platform disputes.

### ***2.5.1.3 Platform’s inconsistent enforcement of user rights***

There is a lack of effective enforcement of users' rights by the platform. This issue is precipitated to a degree by the uncertainty surrounding what constitutes virtual ownership and the imaginary wall separating the avatars from the users. *Eros*, *Leatherwood*, *Ozimals*, and, to a lesser extent, *Minsky* all deal with the unauthorized sale, use and/or reproduction of a protected object by other Second Life users. An important point is the lack of interest by Linden Lab to enforce the rights of content owners of virtual property within Second Life. In most cases, the user-innovator did not seek a lawsuit as the first option. Rather, they attempted to engage Linden Lab to enforce their intellectual property rights. In *Eros*, a number of user-innovators attempted to stop Simons and other unidentified Second Life users who were duplicating objects protected by intellectual property. They first attempted to engage with the infringer to settle the matter on a user-to-user basis. One of user-innovators, Kevin Alderman, CEO of Eros LLC in an interview noted that,

*“We sent a cease and desist letter and a settlement proposal, and the nature of the response established that this guy controls the ‘Rase Kenzo’ avatar.”*

[Kevin Alderman, CEO of Eros LLC speaking to Virtually Blind on 27 October 2007]

Following this, the user-innovators attempted to have Linden Lab enforce their rights as content owners. Alderman continued:

*“We originally tried to go through Linden Lab. We filed support tickets and abuse reports. We even sent a letter to Robin and copied Philip. We got nothing.”* [Kevin Alderman, CEO of Eros LLC speaking to Virtually Blind on 27 October 2007]

It was only after this that the user-innovators proceeded to sue.

*Eros* further demonstrates the difficulty of identifying the identity of content infringers in virtual-worlds. This issue was similarly apparent in *Leatherwood* where, identify the infringer, a private detective had to be hired. Here, the defendant was not a sophisticated infringer but rather a nineteen-year-old living with his grandparents. It is foreseeable that more sophisticated infringers may not be as easy to identify or locate. Even in *Leatherwood’s* case, the identification took a significant expenditure of time, money and resources on the part of the content owners. Noting that the user-innovators in *Eros* and in turn *Leatherwood* constituted some of the largest merchants on Second Life, it is possible that smaller merchants will not have the financial resources to undertake an extensive search for rights infringers. In the memorandum notes of 30 May 2007, Judge Robreno, presiding over *Bragg*, noted the high threshold virtual-world users have to navigate before they can deal with a dispute in a court of law.

COURT: *“Taken Together, the lack of mutuality, the costs of arbitration, the forum selection clause, and the confidentiality provision that Linden unilaterally imposes through the TOS [terms-of-service] demonstrate that the arbitration clause is not designed to provide Second Life participants an effective means of resolving disputes within Linden.”*

[*Bragg*, 487 F.Supp 2d at paragraph 107]

The current dispute-resolution framework for enforcing content owners' rights in the virtual-world falls short of the standards content owners expect in the real-world. At a minimum, there has been a general lack of interest from the platform to help the infringed parties enforce their ownership rights. At most, Linden Lab will not seek to assist the content owner but will instead attempt to have the ownership rights of the content owner dissolved entirely. In *Minsky*, a user-innovator sued Linden Lab, Second Life user Victor Vezina, and past and present Chairmen of Linden Lab's Board of Directors over unauthorized use of his trademark "*SLART*." Initially, upon discovering that his trademark was being used, Minsky requested Linden Lab to transmit to the offending user a cease and desist order. Linden Lab refused. Linden then filed a case against Minsky to cancel his trademark registration. When the court granted a preliminary injunction in Minsky's favor, Linden Lab sought to terminate his Second Life account. This case is interesting because the dispute did not initially involve Linden Lab. In contrast, this was a user-to-user dispute similar to *Eros*, *Ozimals*, and *Leatherwood*. However, unlike these cases, Linden sought to take action not against the rights infringers but against the right holder.

### **2.5.2 Content Ownership**

The relationship between the virtual platform and the user-innovator is one built on mutual dependence. Without sufficient growth in user-innovation by content owners, the platform will stagnate, and without a platform there is no scalable world on which to build. The case-study reveals two key tensions between the platform and user-innovator: 1) there is uncertainty regarding whether the law allows ownership of virtual property, and 2) there is confusion over the definition of virtual ownership.

#### ***2.5.2.1 Uncertainty over recognition of users' virtual property***

The mediating considerations for virtual-world ownership stem from the difficulty in separating the content property from the platform code. This form of ownership governance is highly problematic, as it does not provide any protections around the enforcement of content owners' rights. In an interview with CNN, New York Law School Associate Professor James Grimmelmann referred to ownership in Second Life as "*somewhere in...the 16th century.*" He continued:

*"I'm quite serious. When this stuff started out we were talking pre-feudal...totally made up on the spot. They made [rules] pretty much in response to individual situations...But as this stuff got to be big business, the companies realized they had to start getting regular in administering justice. They couldn't be too irregular or people would quit."* [Associate Professor James Grimmelmann speaking to CNN in "Can people actually 'own' virtual land?" 10 May 2010]

The slow pace of legal reform also poses further challenges for virtual-world ownership. This sentiment is shared by Andrea Matwyshyn, an assistant professor of legal and business ethics at the Wharton School at the University of Pennsylvania:

*"The law is a slow-moving elephant, and technology is a graceful gazelle... And it's a mismatch."* [Assistant Professor Andrea Matwyshyn speaking to CNN in "Can people actually 'own' virtual land?" 10 May 2010]

Since there has been no formal recognition of virtual ownership, the ordinary protection afforded to owners does not exist in Second Life. For example, only when virtual users convert their virtual interests into real-world money do real-world legal protections apply.

#### **2.5.2.2 Uncertainty over meaning of users' virtual ownership**

The questions of what constitutes property in the virtual sense and what in fact can be owned are not readily comprehended by both platform and content owners. This issue was discussed in *Evans*. In this case, the parties had differing understandings of what the platform intended to provide when they offered ownership in Second Life. The user-innovator contended that users gained actual ownership in the normative sense of the word, whereas the defendants asserted that users merely owned copyright in the virtual property. Counsel for Evans made the following submission during oral argument on this motion:

THE COURT: *“What do class members own?”*

COUNSEL: *“We believe that they own a piece of the Second Life world.”*

THE COURT: *“So is it that you own code? Do you own a piece of the server that the code resides on?”*

COUNSEL: *“...I don’t believe you own the server...The code, obviously, reside on a server. And the server...or the code creates a virtual-world. There’s a map...like there would be a real-world map. And there’s locations on the map. Similar in the sense that the internet, as an example, is really a map of various addresses. So if you own a domain name...what do you own? You own the domain name. So in a virtual-world, when you own a piece of land, you own the piece of land that corresponds on the map to that location that you purchased. So it’s similar to a domain name in the sense that there’s a specified location on a map and that’s what you own...It’s part of the overall Second Life world.”*

[*Evans*, Filing 107, Order by Magistrate Judge Donna M. Ryu]

Therefore, the user-innovator's conception of virtual property, as described in their Second Amended Complaint can be summarized as follow:

COUNSEL: *"The owner of the account is entitled to control the account and valuables' electromagnetic record and may freely sell or transfer it. Although a participant's account and valuables are "virtual," they are valuable property in the real-world. Participants can auction them, sell them, license them or transfer them online and through other independent third parties, like eBay.com, slexchange.com, and others."*

[Evans, Second Amended Complaint]

This view is supported by Second Life residents such as Anshe Chung, known as the "Rockefella of Second Life," who created her fortunes in the Second Life platform. Noting the changes to the Second Life terms-of-service concerning content ownership, she notes,

*"Robin Linden has announced to remove land sales on private islands from the land finder. This comes after Linden Lab collected 13000 US\$ ... from me that I "bought" under the impression I would be able to advertise my land there. Speaking for Linden Lab, Robin insists on calling land sales in "Ansheland" "rental," though owners have full control of their land and several residents successfully resold land they acquired in "Ansheland." Residents have sold land in "Ansheland" to other residents."*

She continued,

*"Linden Lab has the same power to reclaim land on the mainland. In the terms-of-service they even reserve the right to remove each of us from Second Life at their own discretion. There is no guarantee and nothing legally binding that one so-called "land owner" receives from Linden Lab*

*when "buying" land. There is nothing they hand over to us, all servers remain in their ownership."*

In contrast, Linden Lab contends that users can own copyright in their creations and a license to use the Second Life computing resources, as set out in the terms-of-service. However, ownership interests in real or personal property beyond what is set out in the terms-of-service is not provided, as the defense counsel noted: "*You have to remember this stuff isn't real. It's a game on a computer.*" Linden Lab argued as follows:

*DEFENSE COUNSEL: "Linden has...made no allegations that we have changed the rules, have told people that when you create content in Second Life, unlike in other games, you own the intellectual property...The copy that you put on Linden's server is Linden's, and it's always been very clear. The copy that you have in your own computer, if you put a copy in your computer, when we close your account, we haven't taken away that copy and we haven't taken away your copyright...What you owned you still own...Our right to remove the bits from our servers of a copy that you licensed to us, is not a property right that the plaintiff ever owned. There's no coherent allegation that there is any such property right. It is not real property. It's not personal property; it is an intellectual property."*

[*Evans*, Filing 107, Order by Magistrate Judge Donna M. Ryu]

Interestingly, Second Life residents see the ability to own property as one of the fundamental motivators to engage with the platform. As users such as ArchTx Edo stated in the official Second Life Forum, "Owning your own land and putting a house of your choosing on it, that you can modify anyway you please is greatly superior." Unfortunately, *Evans* did not provide a ruling on this point, as the case was ultimately settled. However, the

case material illustrates some inherent difficulties in quantifying virtual-world property using a normative understanding of ownership.

### **2.5.3 Summary of Key Tensions that Hinder User-Innovation Success**

The above analysis reveals six core ownership tensions that hinder user-innovation success, as set out in Table 2.3.



**Table 2.3: Summary of Tensions in Virtual-World that Hinders User-Innovation Success**

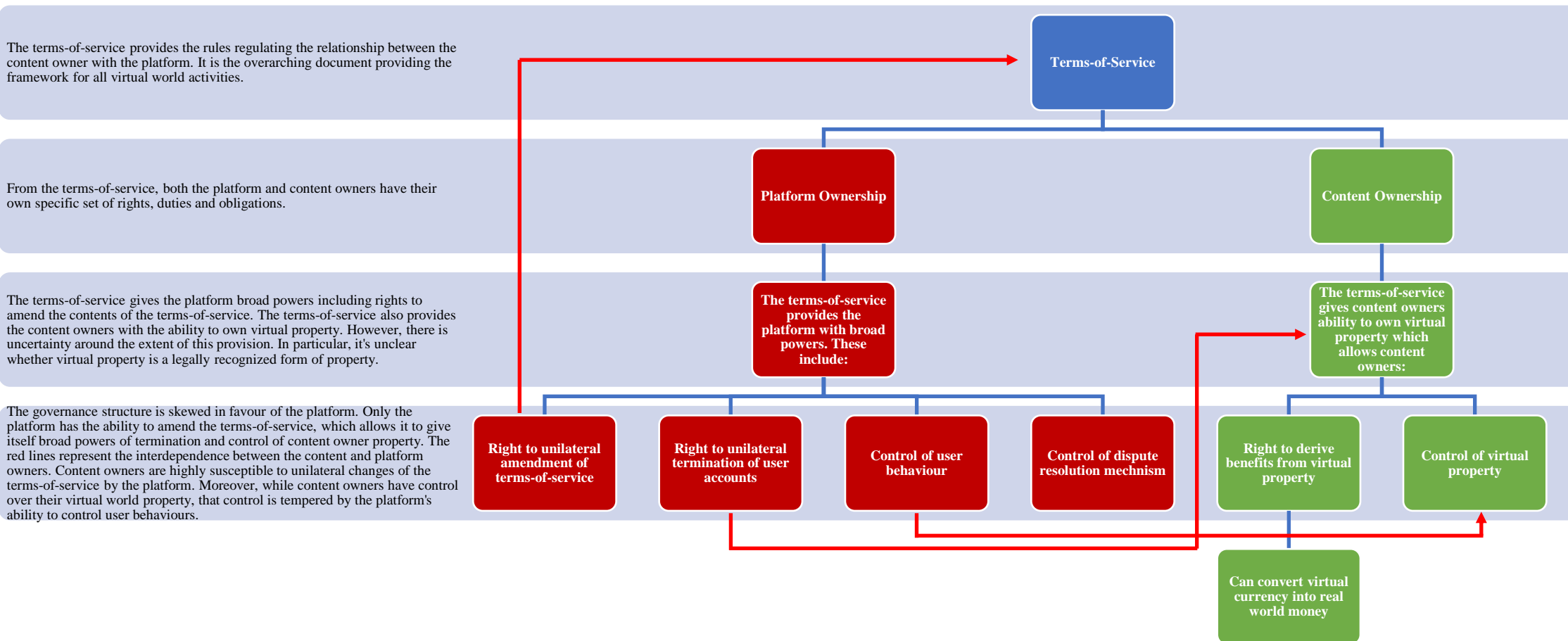
Case	Tensions					
	Broad platform rights given by terms-of-service	Platform's unilateral amendment of terms-of-service	Platform's control of dispute resolution mechanisms	Platform's inconsistent enforcement of user rights	Uncertainty over recognition of users' virtual property	Uncertainty over meaning of users' virtual ownership
<b>User-to-user disputes</b>						
<i>Eros</i>				✓		
<i>Leatherwood</i>				✓		
<i>Minsky</i>	✓		✓	✓	✓	
<i>Ozimals</i>	✓		✓	✓	✓	
<b>User-to-platform disputes</b>						
<i>Bragg</i>	✓	✓	✓		✓	✓
<i>Evans</i>		✓	✓		✓	✓

Table 2.3 summarizes the key ownership tensions. The behavior of the platform owner seems to be a key inhibitor of user-innovation across the analyzed cases. For user-to-user disputes, broad rights given to the platform and inconsistent enforcement of users' rights have had an important impact on users' innovation activity. Other tensions include forcing users into high-cost dispute-resolution regimes which favor the more powerful platforms. For user-to-platform disputes, the inability to extract virtual property from the platform poses the most significant tension between platform and content owners.

The ability of platforms to unilaterally amend their terms-of-services is another significant point of tension. The significance of Linden Lab's ability to unilaterally amend its relationship with users cannot be understated. Whenever Linden makes changes its terms-of-service based on a business efficacy basis, there are significant consequences for content owners, which can result in damage or destruction of in-world businesses affecting user livelihoods. In these cases, there is no obligation for Linden to offer users any compensation. For example, in July of 2007, Linden announced a ban on in-world gambling. Users who had invested in virtual casinos suddenly lost their investments. This decision had flow-on effects to the virtual banking sector where, in August 2007, the in-world bank, Ginko Finance, announced that it was unable to repay USD\$750,000 back to investors because the ban on gambling had triggered a run on the bank's cash reserves, thereby resulting in its insolvency and eventual collapse.

Figure 2.1 illustrates the interconnected nature of virtual-world ownership issues and illustrates broad overarching concerns such as the broad definition of the terms-of-service and the ability for the platform to unilaterally amend the terms-of-service, which affects the content owner's ability to exercise their ownership rights.

**Figure 2.1: Ownership Relationships Between the Platform and Content Owners with the Terms-of-Service.**



Interestingly, Figure 2.1 shows ownership tensions which emerge from platform and user-innovator disagreements and user-to-user conflicts in which the platform gets involved. Overall, it is clear that a broad array of rights is allocated to the platform that go back to the terms-of-service and the power to literally shut down the operations of the user-innovator without providing many options for the user-innovator to extract any value. By denying users their perceived ownership rights in property, and consequently denying them their sources of income, platforms such as Linden Lab jeopardize the platform's ability to attract new users and retain existing users. In the case of app stores, even when an app is taken down from the platform, the content owner still retains full ownership of the proprietary contents and is able to sell the app independently or through another platform; in the case of virtual-worlds, however, this is not possible. Moreover, the clarity and specificity of the take-down provisions in app stores also provide more certainty and guidance for users around acceptable use, thereby diminishing cases of un-transparent behavior by the platform. In the case of Second Life, however, the terms dealing with take-down are drafted broadly with no specific guidance regarding prohibited behavior. Ordinarily, innovation activities flourish when the terms are defined broadly enough to provide entrepreneurs with flexibility in their interpretation. However, in cases where power is concentrated disproportionately with the platform, a broad drafting of the terms means that the platform can interpret the terms to its benefit, setting aside any residual benefits to the user-innovator. Given the interdependence and the fact that platforms need content, a power shift seems beneficial to stakeholders.

## **2.6 DISCUSSION**

This article presents one of the first studies to consider ownership in the virtual-world and emerging technology platforms and its links with sustainable user-innovation success. The case-study reveals that the development of content and the creation of value through the concept of virtual ownership are often poorly understood by virtual-world technology

entrepreneurs and that is “*unformed, imprecise and mostly outdated*” (Erlank, 2010). While there has been some recognition of virtual property, the ideals of property ownership from Linden Lab’s perspective, for example, differ from society’s normative understanding of ownership. Though licenses have become ubiquitous for online transactions, the license given to users by “[T]he *Second Life terms-of-service...grant property rights that bear little resemblance to known property rights*” (Moringiello, 2010).

Ownership in the virtual-world differs from that of the real-world. Society’s normative understanding of ownership is one in which content and platform ownership rights are independent of one another; ownership in the virtual-world, however, cannot meaningfully separate content ownership from the platform. The findings reveal that separating content and platform ownership and their inherent interdependence poses significant challenges to entrepreneurs and is a point of substantial tension. In addition, the current virtual-ownership model favors platform owners while undermining other kinds of competing ownership interest, which is detrimental to long-term user-innovation success. Moreover, the one-sided arbitration clauses make it difficult for content owners to resolve disputes in an equitable and cost-effective manner. The tensions between platform and content ownership are more complex than previously theorized. In particular, the inability of content owners to extract property from the platform, and the ability for platform owners to unilaterally change the terms-of-service to suit specific business circumstances favorable for the platform, pose significant challenges and uncertainties for content owners.

There are two broad inhibitors to continued user-innovation growth within virtual-world platforms like Second Life. First, limiting the ownership rights of content creators will stifle user-innovation and creativity (Watkins et al., 2015). Second, the legal-governance model needs to be modified to remove barriers that unnecessarily impede user-innovation and entrepreneurship within the virtual-world environment and to create legal governance

mechanisms to avoid ownership-related conflict in the first place. There needs to be robust and equitable dispute-resolution mechanisms to better deal with disputes – both at a user-to-user level and between user and platform and vice versa.

The cases further reveal that content owners face substantial challenges both in undertaking entrepreneurial activities within virtual platforms and in the certainty around their relationship with the platform. At present, there is considerable uncertainty regarding whether virtual ownership is in fact recognized by law and the significant power imbalance, cost, and time in favor of the platform in resolving virtual-world disputes. There is also inherent uncertainty for the platform surrounding liability and loss of control of the rate of content creation. The terms-of-service attempts to ease some of these fears by reigning in the level of content ownership and by increasing the cost threshold for dispute resolution.

Limiting the platform's liability exposure, especially in cases of vicarious liability, may ease this uncertainty. In addition, content owners' in-world property should be better protected and guarded against unilateral changes by the platform. Moreover, in cases where user accounts are shut, in-world property should be equitably disposed by the platform and any proceeds are passed on to the content owner.

The findings suggest that in-world governance and regulation is not appropriately achieved by way of a terms-of-service. A terms-of-service governs only the relationship between individual users and the platform, but it should rather stem from an overarching document based on firm legal foundations which is binding for both the platform and the content owners. Changes which affect user rights should not be introduced unilaterally by the platform but should be put to users through a consultative and referendum process. Furthermore, the terms-of-service should be drafted specifically to address the broad

interpretation spectrum for the platform, given the current power imbalance in favor of the platform.

### **2.6.1 Implication for Theory and User-Innovation Practice**

This study contributes to digital and virtual entrepreneurship theories and builds a comprehensive ownership-tension framework with which to study the success of user-innovators. The results identify the ownership tensions and the resulting power play in favor of the platform. The uneven playing field between the platform and content owners results in significant inhibitions over the long-term and sustainable user-innovation success. This study represents the first time that ownership and user-innovation success in the virtual-world have been identified and explored in detail.

The market for virtual-world applications is evolving from a space of specialized interest to a more mainstream channel of communication, commerce, entertainment, and social interaction. As such, questions of how virtual-world platforms adequately deal with legal issues such as property, torts, and privacy have become increasingly important and prominent. To date, these questions have largely been addressed by the application of contract law through the end-user license agreement or terms-of-service. However, as Fairfield (2008) notes, there are limitations to governance through contract alone: “...*the best contract is not the EULA but a social contract among players*”.

The findings suggest that regulation needs to be created at a higher and more universal level so as to enshrine and protect user rights from broad interference by the platform. More importantly, if the user-innovators are successful, the total pie will grow, and both platform and user-innovator will benefit. The protection of user property rights in the legal system will potentially level the playing field and address key tensions around the power imbalance between the users and platform.

Restricting the platform's ability to unilaterally amend the terms-of-service will also go some way toward giving user-innovators greater certainty in their investments within the platform. In addition, users should have greater involvement in any reform or changes which affect their rights through a more thorough consultation process which should see greater participation between the users and the platform. This may involve having user representatives on the platform's decision-making and governance body or having impartial third parties appointed by both the users and the platform to decide on any disputes relating to virtual-world property issues.

From a user-innovator perspective, this study shows that user-innovators need to both engage with the content and build deeper relationships with the platform owners. Getting a voice in strategic platform decisions may become more likely as the number of innovators grows. Ultimately, users can vote with their wallets on what platforms they engage with.

## **2.7 CONCLUSION**

On 26 March 2014, Mark Zuckerberg announced that Facebook acquired Oculus Rift for \$2 billion. He noted that Oculus Rift would not just be a platform for gaming but also “for many other experiences...a new communication platform.” The introduction of virtual-reality systems such as Facebook's Oculus Rift, Microsoft's HoloLens, and HTC's Vive will provide more opportunities for virtual-user-innovators to serve larger and more immersed audiences with content. More importantly, the way in which people in society live and interact is expected to lead to more questions regarding who owns what and what ownership truly means in the virtual marketplace (See Figure 2.2).



**Figure 2.2: Sony's PlayStation VR Headset**



According to Digi-Capital, the virtual and augmented-reality technology market will be a \$150 billion market by 2020. Increasingly, platforms are recognizing that their long-term success is directly dependent on user-innovation success. This has resulted in the growth of open virtual platforms to enable greater control by content owners. Several platforms have ambitions to be the leading virtual-world utilizing virtual-reality technology. Linden Lab, for example, is developing Project Sansar specifically for use with virtual-reality headsets. Project Sansar will allow users and firms to build their own virtual-reality experience by using learning from Linden Lab's experience to run the Second Life platform. Early communications indicate that the new platform will be much more open and accessible for entrepreneurs, offering them ways to set stores and engage in transactions with respect to self-developed virtual products and service. It is in the long-term interest of both platform and content owners that the virtual-world's social eco-system is conducive to users and their innovations.

### **3. THE EFFECT OF INTEGRATED MOTION PICTURE AND CINEMA OWNERSHIP ON CONTENT PERFORMANCE: FROM PROHIBITED PRACTICE TO COMPETITIVE ADVANTAGE**

#### **ABSTRACT**

This article seeks to determine the performance outcomes of bringing motion-pictures to the market through a channel which includes owned cinemas versus a channel with only independent cinemas. I examine this phenomenon by comparing non-constrained film studios in Australia with constrained Hollywood studios. Hollywood studios are constrained by the *United States v Paramount Pictures Inc (1948)* decision which prohibits Hollywood studios from owning cinemas; no such prohibition exists in Australia. Performance differences are expected to be time dependent and may affect the competitive dominance of Hollywood studios that are non-integrated by law. A cross-sectional study using data from both integrated and non-integrated value chains is employed to test hypotheses regarding the implications of channel integration and ownership on content performance. The findings reveal that vertical integration mitigates the dominant performance of Hollywood studios at key periods during a film's box-office life cycle. This study aims to promote new governance insight and creates management awareness regarding how channel ownership affects downstream synergies and advantages for channel partners.

**Keywords:** ownership, vertical integration, motion-picture, performance.

### 3.1 INTRODUCTION

“...*What ultimately matters for companies, policy makers and economists alike is whether ownership structure affects corporate performance, and if so, how.*” (Hu and Izumida, 2008, p.72)

Film is one of the major growth industries of the twenty-first century. The creative industry, in particular film, is an important sector of the global economy which has so far received limited attention in ownership and performance literature (Leenders and Eliashberg, 2011). The landmark United State Supreme Court decision in *United States v Paramount Pictures Inc (1948)* effectively prohibits Hollywood studios from owning their own cinemas and holding exclusivity rights regarding which cinemas may exhibit their films. This decision drastically transformed the way Hollywood films were produced, distributed, and exhibited. The outcome of this case has resulted in the divestment of cinema assets by the leading Hollywood studios, thereby allowing films to be shown in U.S. cinemas from any studio. The impact of this case continues to inform the general business practices of leading Hollywood studios and cinema operators in the United States to this day.

In contrast, no such prohibition exists in many other countries. In Australia, several major cinema chains (Village and Dendy/Icon) actively distribute and produce films either independently or through partnerships with leading Hollywood studios for global consumption. Vertical integration allows these firms to reduce cost and increase efficiency for bringing films to market.

The way in which consumers consume entertainment is also evolving. New market entrants such as Netflix, Hulu and Amazon can produce extensive content while owning the online distribution and exhibition platforms. This combination potentially offers a competitive advantage that is hard to replicate for traditional Hollywood studios and cinemas.

These new entrants seek to disrupt traditional film-ownership structures by taking advantage of regulatory environments which limit the effectiveness of traditional Hollywood studios. This contrast between the prohibitive competitive practices for Hollywood studios in the United States and the more liberal approach taken in Australia, China, and other online streaming service providers creates a unique opportunity for comparative analysis. This study seeks to examine the ownership to box-office performance link of films produced through non-constrained studios in Australia versus films produced by constrained Hollywood studios to determine whether vertical integration yields any competitive advantage for bringing new films to market. I propose that a different ownership structure might affect the performance of new films in the market at specific times during a film's box-office life cycle.

How ownership structures affect performance has been an important question for firms, academics, and governments. This question dates back to Berle and Means (1932), who first posited that the separation of ownership reduces management incentive to maximize corporate efficiency. This was subsequently refined by Jensen and Meckling (1976) into the agency theory, which expounds the alignment of varying and competing interests through ownership. Since the mid-1980s, several empirical studies have examined the ownership-to-performance link with varying degrees of effectiveness (Bergström, 1999; Eisenberg, 1999; Baker et al., 2002; Crabb, 2005). Marketing scholars suggest that ownership enhances the consequences of performance (e.g., Im and Workman, 2004; Kirca et al., 2005). Although ownership plays a pivotal role in the success of bringing new products to market, the empirical evidence supporting a positive effect of ownership on performance is not consistent in the literature. On the one hand, some studies find a positive relationship between ownership and new product success (e.g., Morck et al., 1988; McConnell and Servaes, 1990; Cho, 1998; Claessens and Djankov, 1999; Himmelberg et al., 1999; Holdemess et al., 1999; Xu and Wang, 1999; Earle et al., 2005). On the other hand, several studies show no direct

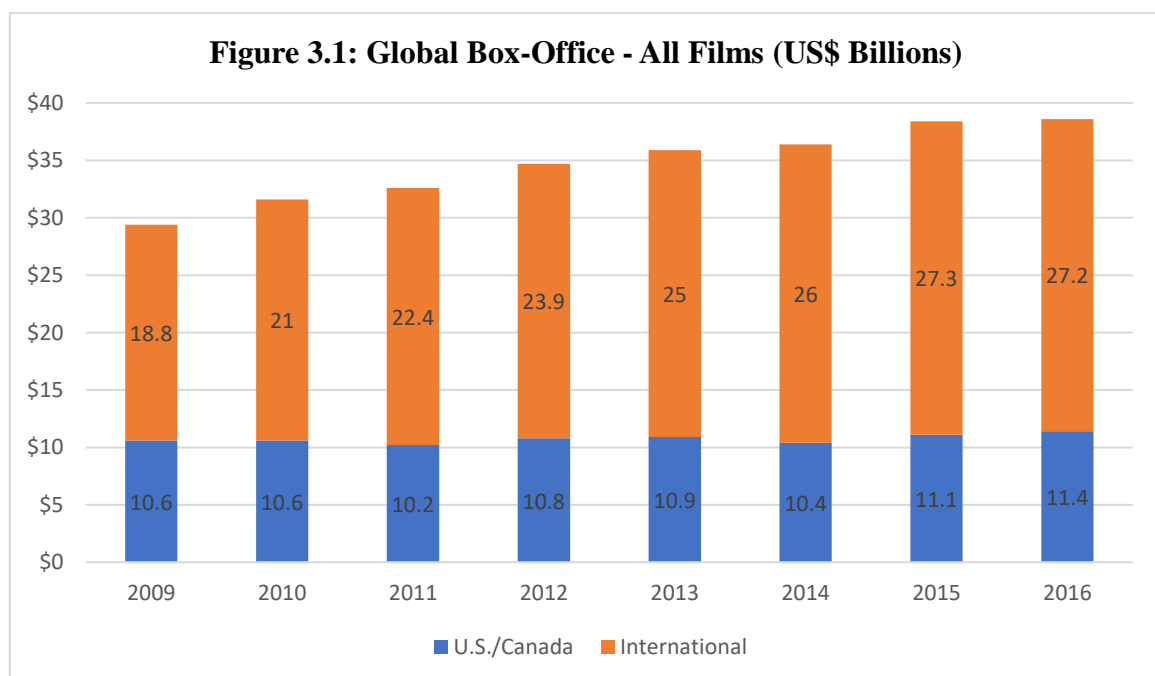
impact of ownership on performance (e.g., Demsetz and Lehn, 1985; D'Aveni and Ravenscraft, 1994; Walston et al., 1996). This inconclusiveness motivates further research to investigate the potential moderating variables and thereby to explain the unstable relationship between ownership and performance. Despite the progress in this area, one important moderator is still missing in the literature: that is, how different ownership structures and their external regulatory constraints affect ownership-to-performance outcomes. Ownership structure and external regulatory environment are regarded as among the most important complementary resources for organizational strategy success (Chandler, 1962; Olson, Slater, and Hult, 2005). For example, firms may achieve strategic objectives only when the ownership structure and regulatory environment support the envisaged corporate strategy (e.g., Thomsen and Pedersen, 2000; Kor and Mahoney, 2005). Gedajlovic (1993) also argues that ownership structure serves as the moderating variable in the strategy to performance link. It has therefore been suggested that variation in performance results are heavily dependent on the ownership structure and regulatory environments in the industry in which the firm is embedded (Hu and Izumida, 2008).

This article contributes to the marketing and management literature by suggesting that ownership structure affects the performance of films at the box-office. In this study, I examine the influence of vertical integration on the performance of films at the box-office. That is, films produced through a vertically integrated structure perform better than comparable films produced through a non-integrated structure. This has not been considered in previous studies. Investigation of the unknown impact of ownership structure in film making may make key contributions to the literature by providing important new insights and new implications for business practice in the film and creative industry.

### **3.2 THE GLOBAL FILM INDUSTRY**

Film making is inherently risky due to the need for high capital and the uncertainty of success at the box-office (Wasko, 2003). The ability to recoup costs for the production and distribution of motion-pictures is heavily dependent on the film's performance at the box-office (Eliashberg et al., 2006; Piazza and Olausson, 2007; Gemser et al., 2012). As such, the global motion-picture market has traditionally been concentrated in Hollywood studios (Cones, 1997). These studios have been producing and distributing motion-picture contents since the 1920s; as a result, they have been able to build up well-established production and distribution infrastructures and know-how together with extensive libraries of motion-picture related intellectual property which continue to be exploited to this day (Silver, 2008).

The global film industry, based on global box-office revenue performance, has been extremely resilient to external market forces and continues to be the entertainment medium of choice when compared with other activities such as theme parks or sporting events (Piazza and Olausson, 2007).



Source: Motion Picture Association of America

In the years between 2009 to 2016, global box-office revenue exceeded \$38.6 billion (see Figure 3.1). It is interesting to note the relative stagnation in the performance of the North American box-office and the significant growth in box-office revenue from international box-office revenue during this period. In the period of 2009 to 2016, the North American box-office grew 5.18% compared with 38.28% growth internationally over the same period. This means that, in 2009, international box-office revenue constituted just over 1.7 times the North American box-office sales as opposed to 2016, when international box-office revenue constituted just over 2.45 times the North American box-office sales.

Hollywood's dominance over the global film market has much to do with its formula for producing films that result in box-office success (Eliashberg et al., 2006; Silver, 2008). According to Silver (2008), Hollywood's success at the box-office is due to three key characteristics. These include, 1) marketing, distribution and promotional capability; 2) product development and pricing capability; and 3) barriers to entry.

*Marketing capability* refers to both market research capability and marketing management capability. Hollywood studios have conducted market research since the 1920s, using a variety of channels which include environmental scanning (Wasko, 1994), market intelligence gathering (Goldberg, 1991), and talent spotting (Wasko, 2000). Studios also have a worldwide network of distribution offices which are utilized as intelligence-gathering channels. Professional advisors; channel partners; trade press; and attendance at film markets, festivals and conventions provide additional market know-how (Epstein, 2005; Gemser, 2007). Market research therefore facilitates better-informed management decisions in strategy formulation, new product development, and marketing management. Due to the number of new releases, films invariably have a short life-cycle (Littwak, 1986). This therefore makes the effective segmentation, targeting, positioning, and integration of marketing communications critical to box-office success (Silver, 2008). In particular, Hollywood



studios strategically invest resources into the effective positioning of films through advertising and marketing materials such as trailers (Silver, 2008). In recent times, Hollywood has used significant marketing force in launching new films. The average marketing budget for a new Hollywood release is USD\$35.9 million (Gerbrandt, 2010), which exceeds the production budget of most independent films (Silver, 2008). The evidence also suggests that marketing for Hollywood productions is centrally driven and strategically coordinated (Gaines, 1990). Moreover, Hollywood adheres to four key strategies that provide superior value proposition to consumers: 1) quality product (Bakker, 2003), 2) intensive distribution (Puttnam, 1998), 3) promotional power (Silver, 2008), and 4) premium pricing (Wasko, 2003). Hollywood rivals tend to be comparatively smaller studios with expertise in film production rather than in distribution and marketing (Silver, 2008). These marketing, distribution, and promotional initiatives ensure that Hollywood studios have superior capabilities over rivals.

Since 1910, Hollywood has adopted a strategy of product differentiation over competitors (Bakker, 2003). Differentiation is achieved by higher budgets and a commitment to a quality-based production strategy with a structured new-product-development process that is customer oriented (Crabb, 2005). In particular, investment by Hollywood studios in script development significantly exceeds competitors (Silver, 2008). While Hollywood films have been accused of being overly formula driven, this structured development process has ensured that the production of film entertainment has consistently outperformed international competitors and has cemented Hollywood's dominance over the global film market (Sawyer, 2002). In addition, the distribution and pricing strategy employed by Hollywood studios has continually evolved, reflecting the continually escalating price of theatre tickets (Silver, 2008).

Dominant industries also erect barriers to entry to deter potential competitors (Porter, 1980). Prior to *United States v Paramount Pictures Inc (1948)*, Hollywood studios used vertical integration to express its vertical power and to provide them with, “the ability...to erect barriers to entry or to otherwise shift costs and revenues among affiliates in ways to distort efficient market operation” (Shepherd, 1997, p.2). There is consensus in the management and economic literature that barriers to entry play a significant role in maintaining market dominance (Stigler, 1968; Porter, 1980; Rosenbaum, 1998). Hay and Vickers (1987) note that, “to maintain a dominant position, it is essential to limit the entry and growth of rival firms.” The concentration of Hollywood studios creates a barrier to entry at three levels. First, only firms of significant size can afford to engage A-list stars (Silver, 2008). Second, in bringing new films to market, the global scale of operation creates a systemic barrier to competitors (Silver, 2008). Third, high production budgets and product quality inhibit consumer acceptance of new market entrants (Germain, 2001).

### **3.3 THEORETICAL FRAMEWORK**

Vertical integration is a key management strategy that has been applied to various markets and industries to overcome perceived market imperfections and to enhance firm performance (Isaksen et al., 2011). The majority of vertical-integration-to-performance studies have been conceptual, with only a few empirical or industry-based studies (Bhuyan, 2002). Existing ownership-to-performance studies view the subject through the lens of either internal or external factors (Rumelt, 1991). Hawawini et al., (2003) report that industry or external factors contribute to firm performance in a more direct way than internal firm factors, while Opler and Titman (1994) claim that internal factors play a determinant role in affecting firm performance. Given the scope of this study, the focus is on internal firm factors with reference to the external regulatory environment. Many contemporary theorists in this area have found a correlation between ownership structure and firm performance. At a

minimum, sound ownership practices ensure that firms are less susceptible to external and internal market conditions. For example, Gibbs (1993) notes that corporate ownership is positively related to operating performance and business survival; therefore, firms with sound ownership structures are better placed to survive economic downturns.

### **3.3.1 Hollywood Dominance**

Much of the existing literature which deals with the film industry focuses on the rise and dominance of Hollywood. The concept of market dominance “implies power and control” (Rosenbaum, 1998). This concept of control forms the key basis both for explaining Hollywood’s dominance in the global film and entertainment markets and for the link with the concept of ownership-to-performance. In this context, dominance can, on the one hand, be explained with reference to Hollywood’s high concentration of ownership coupled with size and economic influence, allowing the manipulation of industry pricing (Silver, 2008). On the other hand, scholars have theorized that a dominant market share, large economies of scale, collusion, cartel-like behavior, high barriers of entry combined with visible brand identity are significant indicators of dominant market power (Stigler, 1968; Porter, 1980; Rosenbaum, 1998). Moreover, Hollywood’s dominance can also be described as an oligopoly in the sense that the market is controlled by a few large firms. Similar oligopoly traits have been found in the media and entertainment industry (Silver, 2008).

Many scholars have sought to utilize and discuss dominance theory, but they seldom define it in any unified sense (Singh 2002). Geroski and Jacquemin (1984) attempt to define dominance as the ability of a firm to pre-commit itself to a strategic position which narrows the range of replies open to rivals. Dominant firms have access to a differential movement advantage which can be exploited by making some credible commitment which pre-empt rivals, and thus restricts the scope of their activities.

In Georski and Jacquemin (1984)'s definition, it is not the relationship between dominance and firm size that is of concern but rather that the reduction of competition is the likely consequence of dominant firms creating unfair competitive advantage for themselves. On the other hand, economic theorists have attempted to define dominance theory as the ability to manipulate pricing to maximize profit (Rosenbaum 1998). While the size of the firms is in this case not the defining factor for discussions of market dominance, it can be logically deduced that, the larger the firm, the more dominant market position it will have. Silver (2008) claims that both the ability of market power to control pricing and output and the reduction in competition are apparent in all dominance theories.

Hollywood has been the dominant leader in the global film business since the end of World War One. It has maintained its lead and dominance ever since (Balio, 2002). Numerous factors have been expounded to explain Hollywood's dominance in the global film market. These include political, demographic, technological, economic and cultural factors (Silver, 2008). While some literature has explained dominance theory with appeal to a single factor, most literature in this area proposes a multi-factor cause for the resulting market dominance. Waterman and Jayakar (2000) note that scholarly study in this area is multi-dimensional, owing to "a wide variety of cultural, political, economic and sociological factors that contribute to the United States historical dominance of world film trade in motion-pictures."

***Hypothesis 1A:*** *There is a positive relationship from being a Hollywood studio and box-office performance.*

### **3.3.2 Vertical Integration**

Previous vertical integration studies have yielded mixed results and outcomes. Some studies reveal a positive effect on performance (Im and Workman, 2004; Kirca et al., 2005;

Gemser et al., 2012) while other studies show either negative or negligible effects on performance outcomes (Claessens and Djankov, 1999; Xu and Wang, 1999; Earle et al., 2005; Al-Matari et al., 2013). Subsequent studies have attempted to explain the inconsistent results in two broad ways. First, it has been argued that vertical integration to firm performance links varies across different industries; this is popularly known as the “industry effect” (Isaksen et al., 2011). Second, different methods of measurement have been used in different studies, thereby resulting in diverging results (Isaksen et al., 2011). Theoretically, vertical integration should yield performance improvements, since the separation of ownership incurs additional administrative and management costs (Kirca et al., 2005). In addition, vertical integration promotes economies of scale (Im and Workman, 2004; Walston et al., 1996), reduces duplication of services, provides greater coordination of products and services, and increases to market share (Shortell, 1988).

A range of different performance measures have been used to determine the effect of ownership structure on performance. Adelman (1955) and Vesey’s (1978 p.11) vertical-integration measure can be defined as “the ratio of value added to sales, with both numerator and denominator adjusted for profits,” or more simply put, value added divided by sales. On the other hand, Maddigan (1981) used the VIC index, which relies on national input-output tables as a measure of the vertical-integration-to-performance success. Furthermore, Levin (1981) introduced the self-sufficiency measure, in which profitability through vertical integration is measured by net income plus interest payments divided by total revenue. Other theorists such as Harrigan (1986) believe that vertical integration requires a multi-dimensional measurement whereby distinguishing features such as degree, stages, breadth, and form should be identified. Degree of vertical integration was measured by either internal purchases (being backward integration) or internal sales (being forward integration). The form of the vertical integration was achieved by measuring the percentage of ownership in

the venture. Martin (1986) uses an input-output table to measure the average industry of both backwards- and forward-integration testing within a structure-conduct-performance model. Other theorists include Chatterjee (1991), who measures profitability in vertical integration by cumulative abnormal returns (Isaksen et al., 2011). D'Aveni and Ravenscraft (1994) used operating revenues over sales as their performance measure.

Performance measures have included return on investment (Vesey 1978 and Buzzel 1983), net income and financial costs divided by sales (Levin, 1981), return on asset (Maddigan and Zaima, 1985), price cost margin (Martin 1986), operating revenue over total sale (D'Aveni and Ravenscraft, 1994), excess value (Fan and Lang, 2000), and cumulative abnormal return in market value (Chatterjee, 1991).

Vesey (1978) reports that a high degree of vertical integration does not always translate into increased profits but rather that other factors such as the business-operating environment and market share are equally determinant. However, Vesey's study indicates that firms that undertake backward integration have better results than forward-integrating firms. Buzzel (1983) reports that either very low or very high degrees of vertical integration produce the best results. Like Vesey, Buzzel also finds that backward integration produces higher return on investment. Levin (1981) claims that profitability is not affected by the degree of vertical integration but that vertical integration assists in reducing the variation in profits over a period of time (Isaksen et al., 2011). On the other hand, Harrigan (1986) says that vertical integration is a costly corporate strategy and that multi-integration stages cannot be sustained across the industry's entire life span whereas Martin (1986) notes that measuring vertical integration is a complex exercise depending on whether integration occurs into or out of the industry. Martin's theoretical model is a case-by-case approach; in some instances, vertical integration will produce positive results while at other times it does not. Chatterjee (1991) reports that vertical integration produces the best results when it leads to increased

market power in a concentrated operating market. D'Aveni and Ravenscraft (1994) note that vertically integrated firms are more profitable than non-integrated businesses but that vertical integration creates higher production costs in the value-chain process. Isaksen et al., (2011) identify vertical integration as something that is difficult to measure and compare; they also claim that the relationship-to-performance link is ambiguous at best given the multidimensional construct of vertical-integration theories. This sentiment is more or less emulated by Keats and Hitt (1988 p.526), who conclude that, "performance is a difficult concept, both in terms of definitions and measurement."

Overall, however, the existing literature suggests that, when specific internal firm factors are excluded, vertical integration should theoretically yield positive performance improvements. A number of theories have been put forward to support this. These include, 1) transaction-costs economics, and 2) industrial-organization economics.

Transaction-cost economics is one of the central theoretical mechanisms for expounding the benefits of a vertically integrated corporate structure. Transaction-cost economics can be explained as the organization of transactions which occur in the buying and selling process. Secondary considerations may include such things as source selection, contract management, performance management, dispute resolution, managing and monitoring of personnel, and procuring inputs and capital equipment (Isaksen et al., 2011). In its barest form, transaction-cost economics posits that vertical integration eliminates the need for inter-firm profits (Mahoney, 1992). In this sense, vertical integration can be seen as a focal point whenever the relationship between the buyer and the seller is investigated (Hingley, 2001; Spina and Zotteri, 2001). Arrow (1969) explains transaction costs as the cost of organizing the economic system, whereas Azzam and Pagoulatos (1999 p.10) go further to suggest that "*there would be no reason for business firms to exist if...we could foresee the future perfectly and there were no costs in negotiating and renegotiating long-term*

*contracts.*” Moreover, Levy (1985 p.439) notes that internal transactions undertaken as part of a vertical-integration structure is economically profitable so long as the “costs of transacting over market outweighs internal costs of management.”

Industrial-organization economics does not view vertical integration from the perspective of reducing inter-firm costs in the value chain. Rather, vertical integration instigates a structural reorganization to create a competitive advantage (Isaksen et al., 2011; Chatterjee, 1991). Competitive advantage is achieved by utilizing different economies in the form of combined operations, internal control and coordination, information management, avoiding the market, and stable relationships. Alternately, it is achieved through the reduction of external uncertainties and by securing critical supply (Porter, 1980). In its simplest form, industrial-organization economics views vertical integration as a mechanism for reducing overall firm risk in a trading environment with demand and volume uncertainty, resulting in efficiency gains and ultimately in high-performance outcomes (Isaksen et al., 2011). Such risks invariably manifest themselves in the day-to-day business-transaction process. Even where a contract exists to offset some of the inherent uncertainties which exist in the buying and selling process, there is still a disconnect between the interests of each party. Where an opportunity benefits one party, it is likely that contractual terms will be interpreted in a manner which provides the most benefit to that contracting party. Therefore, an industrial-organization economics’ view of vertical integration is that it is one of the only tools available to businesses to further reduce the inherent uncertainty of mere contracting and to align each contracting party’s interests into a single unified business interest.

***Hypothesis 1B:*** *There is a positive relationship between vertical integration and film performance.*

### **3.3.3 Film Performance Through Vertical Integration is Time Dependent**



The first week and later week cycles are critical indicators of a film's financial success. The most significant period for predicting a film's box-office success is in its first week (Terry et al., 2009). Hollywood films can make up to one-third of their entire domestic box-office gross during the opening weekend (Eller and Freidman, 2008). A sub-par opening week could mean that a film will struggle to break even. Opening week ticket sales are strong predictors of success, as they lay the foundation for international ticket sales and sales to the home-entertainment market. In addition, films with low opening-week ticket sales may suffer from a perceived lack of value by consumers (Wasko, 2005). Moreover, box-office success in its first week of release may impact a film's theatrical run period, as cinemas will be reluctant to run films which perform poorly. Films which make less money at the box-office than anticipated will likely have a reduced life-cycle in the cinema (Screen Australia, 2015).

While first-week performance may indicate box-office success, films which perform better later in their life-cycle indicate overall financial success. This is because ticket sales represent only a fraction of a film's potential profit. Previous literature indicates that over 56% of a film's total profit may come from non-theater revenue (Terry et al., 2009). In addition, given the changing split in revenue between the exhibitors and the studios over the life-cycle of the film, the performance of a film later in its cycle may also indicate better overall box-office performance (Wasko, 2005). While the focus has been on the opening week of new film releases, later week cycles may in fact be a better indicator of a film's long-term success (Eller and Freidman, 2008). For example, *Avatar* remains the highest-grossing film of all time with ticket sales just under USD\$3 billion. Its performance during the first week was only USD\$77 million. Increases in the film's box-office sales did not occur until later in the film life-cycle.

I therefore theorize that performance improvements through vertical integration are time dependent, with the most significant impact during the first week and later week cycles of the box-office film-release life cycle.

***Hypothesis 2:** The dominance of Hollywood is mitigated by vertically integrated studios; mitigation is stronger in the first week post-release and stronger in later weeks.*

### **3.4 METHODOLOGY**

I examine any performance implications stemming from vertical integration by comparing films produced by Hollywood studios (not vertically integrated) with Village Roadshow and Icon films (vertically integrated) as the empirical setting. A set of multivariate regressions is employed to establish and understand links between ownership integration and performance.

#### **3.4.1 Data Collection**

The sample comprises data for films produced through both vertically integrated and non-vertically integrated studios. Two major Australian studios have integrated value chains to produce major blockbusters: Village Roadshow and Icon/Dendy. Much of the data was collected through IMDB ([www.imdb.com](http://www.imdb.com)). However, I also utilized Box Office Mojo ([www.boxofficemojo.com](http://www.boxofficemojo.com)) and The Numbers ([www.the-numbers.com](http://www.the-numbers.com)) for supplementary data where IMDB data was not available. Furthermore, additional Australian film data was provided by the Motion Picture Distributor's Association of Australia ([www.mpdaa.org.au](http://www.mpdaa.org.au)).

The data includes a total of 146 films comprising half vertically integrated and half non-integrated films. This comprises 69 vertically integrated films by Village and 4 vertically integrated films by Icon. The sample includes all films produced by Village Roadshow and Icon from 1992 to 2015. Village and Icon films were identified through IMDB. I match each

Village Roadshow and Icon film with a non-integrated film produced by a Hollywood studio that matches with respect to year, genre, and budget according to IMDB. Given the wide breadth of available genres, I confined it to the most popular genres being drama, romance, action, family, and comedy. I identified the matching non-integrated films by undertaking Google searches for terms such as *action films in 2014*, where the integrated film was of an action genre released in 2014. By using IMDB, Box Office Mojo and The Numbers, I confirmed the viability of films generated through the Google search by ensuring that the film matched with respect to year, genre, and budget. Films were excluded in case of non-availability of data and/or missing data. IMDB was also utilized to identify budgets, films with Australian shooting locations, and Australian actors. Moreover, IMDB also allowed for the identification of films directed by IMDB top 100 directors and films nominated for either the AACTA Best Picture Award or OSCAR Best Picture Award. Furthermore, weekly screen and box-office data was provided by the Motion Picture Distributor's Association of Australia.

### **3.4.2 Variables**

The variables employed in the multiple regression equations are described in Table 3.1 and discussed below.

**Table 3.1: Description of Variables**

<b>Variable</b>	<b>Description</b>
<b>Dependent Variable</b>	
Box Office	The film's cumulative global box office performance
<b>Independent Variable</b>	
Integ	Whether the film was produced, distributed and exhibited by an integrated studio or non-integrated studio
<b>Control</b>	
Sequel	Whether the film is part of a sequel of films
Budget	The cost of film production
IMDB Sco	The film aggregate score as provided by users of IMDB
Drama	Films classified as being in the drama genre by IMDB
Romance	Films classified as being in the romance genre by IMDB
Comedy	Films classified as being in the comedy genre by IMDB
Action	Films classified as being in the action genre by IMDB
Family	Films classified as being in the family genre by IMDB
Sci Fi	Films classified as being in the science fiction genre by IMDB
AUS Loct	Films that were wholly or partly filmed in Australia
AUS Act	Films containing Australian actors
AUS Star	Films containing Australian actors in IMDB's list of top 60 Australian actors
Scr WK 1	Number of Australian cinema screens exhibiting the film in Week 1
Scr WK 2	Number of Australian cinema screens exhibiting the film in Week 2
Scr WK 3	Number of Australian cinema screens exhibiting the film in Week 3
Scr WK 4	Number of Australian cinema screens exhibiting the film in Week 4
Scr WK 5	Number of Australian cinema screens exhibiting the film in Week 5
Scr WK 6	Number of Australian cinema screens exhibiting the film in Week 6

Table 3.1 shows the variables used for the regression. The dependent variable is the film's cumulative box office performance. The independent variable is whether the film was conceived through a vertically integrated channel for bringing the film to market. If the film is vertically integrated, it's labelled 1. If the film is not vertically integrated, the film is labelled 0. In the regression, I control for any sequel effect, film budget, IMDB score, film genre, and the number of weekly screens in the partial model. In the full model, I also control for Australian characteristics (including Australian actors, shooting location and stars) in addition to the controls used in the partial model.

### **3.5 RESULTS**

The hypotheses are tested using six regression analyses corresponding to each week of the sampled film's box-office life cycle. Before the results are discussed, Table 3.2 shows the means, standard deviations, and correlations between the key independent variables.

**Table 3.2: Correlation Table to Establish Link between Vertical Integration and Film Performance**

No	Variable	Mean	Std Dev.	N	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
1	Integ	.500	.502	148																		
2	Sequel	.095	.294	148	.000																	
3	IMDB Sc.	6.537	1.050	148	-.273**	.176*																
4	Budget	5.52E+7	3.64E+7	148	-.004	.625**	.197**															
5	Drama	.426	.496	148	-.096	-.232**	.261**	-.207**														
6	Romance	.196	.398	148	-.017	-.160*	.012	-.264**	.264**													
7	Comedy	.345	.477	148	.043	-.089	-.235**	-.180*	-.222**	.287**												
8	Action	.351	.479	148	-.057	.294**	-.004	.350**	-.290**	-.363**	-.146*											
9	Family	.074	.263	148	.026	.172*	-.195**	.125	-.140*	-.140*	.174*	-.101										
10	Sci-Fi	.115	.320	148	-.064	.246**	.080	.341**	-.224**	-.178*	-.217**	.268**	-.102									
11	AUS Loct	.122	.328	148	.248**	.162*	.010	.036	-.111	-.080	-.139*	.029	-.027	.190*	-.032	.065	-.007	.004				
12	AUS Act	.338	.475	148	.114	.160*	.092	.268**	-.037	-.137*	-.127	.073	.124	.101	.169*	-.031	.017	.059	.477**			
13	AUS Star	.122	.328	148	.124	.304**	.198**	.231**	-.069	-.027	-.139*	.029	.052	.255**	.152*	.065	.043	.046	.557**	.521**		

\*\*\*, \*\* and \* are significant at 1%, 5% and 10% respectively.

Table 3.2 shows that all the correlations are below  $r = 0.6$ , which indicates that multicollinearity is not a major concern.

The regression results encompassing weeks 1 to 6 of the sampled film's cinema box-office life cycle are presented in Table 3.3.

**Table 3.3: Regression Results to Establish Link between Vertical Integration and Film Performance**

Week 1					Week 2					Week 3				
	Partial Model		Full Model			Partial Model		Full Model			Partial Model		Full Model	
	Est.	T-Val.	Est.	T-Val.		Est.	T-Val.	Est.	T-Val.		Est.	T-Val.	Est.	T-Val.
<b>Intercept</b>		-1.374*		-1.765**	<b>Intercept</b>		-1.148		-1.398*	<b>Intercept</b>		1.170		1.152
<b>Integ</b>	.001	.007	.025	.325	<b>Integ</b>	-.123	-1.784**	-.109	-1.558*	<b>Integ</b>	-.188	-1.754**	-.164	-1.474*
<b>Sequel</b>	.364	3.934***	.391	4.114***	<b>Sequel</b>	.219	2.563***	.223	2.518***	<b>Sequel</b>	.405	2.997***	.420	2.948***
<b>IMDB Sc</b>	.107	1.380*	.136	1.765**	<b>IMDB Sc</b>	.055	.738	.071	.953	<b>IMDB Sc</b>	-.108	-.883	-.106	-.842
<b>Budget</b>	.404	4.315***	.409	4.195***	<b>Budget</b>	.25	.244	.051	.488	<b>Budget</b>	-.249	-1.610*	-.258	-1.587*
<b>Drama</b>	-.003	-.037	-.012	-.160	<b>Drama</b>	-.036	-.505	-.025	-.351	<b>Drama</b>	-.038	-.340	-.034	-.295
<b>Romance</b>	.171	2.042**	.192	2.308**	<b>Romance</b>	.085	1.113	.094	1.222	<b>Romance</b>	-.002	-.013	-.009	-.074
<b>Comedy</b>	.034	.433	.040	.501	<b>Comedy</b>	-.041	-.553	-.044	-.580	<b>Comedy</b>	-.108	-.902	-.134	-1.074
<b>Action</b>	.178	2.078**	.175	2.054**	<b>Action</b>	-.006	-.076	.003	.035	<b>Action</b>	-.002	-.019	-.012	-.097
<b>Family</b>	-.051	-.640	-.042	-.529	<b>Family</b>	.152	2.076**	.179	2.428***	<b>Family</b>	-.027	-.240	-.009	-.075
<b>Sci-Fi</b>	.073	.981	.113	1.490*	<b>Sci-Fi</b>	-.010	-.137	-.005	-.067	<b>Sci-Fi</b>	-.147	-1.362*	-.138	-1.240
<b>Scr WK 1</b>	.019	.272	.015	.220	<b>Scr WK 2</b>	.593	5.979***	.608	6.060***	<b>Scr WK 3</b>	3.30	2.096**	.360	2.196**
<b>AUS Loct</b>			.080	.866	<b>AUS Loct</b>			.103	1.149	<b>AUS Loct</b>			-.021	-.149
<b>AUS Act</b>			.046	.522	<b>AUS Act</b>			-.089	-1.089	<b>AUS Act</b>			-.088	-.679
<b>AUS Star</b>			-.225	-2.379***	<b>AUS Star</b>			-.128	-1.452*	<b>AUS Star</b>			-.047	-.329
<b>R<sup>2</sup></b>	.620		0.645		<b>R<sup>2</sup></b>	.685		.703		<b>R<sup>2</sup></b>	.239		.255	
<b>F</b>	12.926***		10.914***		<b>F</b>	17.039***		14.048***		<b>F</b>	2.432**		2.003**	

\*\*\*, \*\* and \* are significant at 1%, 5% and 10% respectively.



**Table 3.3: Regression Results to Establish Link between Vertical Integration and Film Performance (Continued)**

	Week 4					Week 5					Week 6			
	Partial Model		Full Model			Partial Model		Full Model			Partial Model		Full Model	
	Est.	T-Val.	Est.	T-Val.		Est.	T-Val.	Est.	T-Val.		Est.	T-Val.	Est.	T-Val.
<b>Intercept</b>		-1.113		-1.366*	<b>Intercept</b>		-.680		-.786	<b>Intercept</b>		-1.624*		-1.605*
<b>Integ</b>	-.066	-.940	-.056	-.793	<b>Integ</b>	.000	.007	.005	.080	<b>Integ</b>	.044	.651	.047	.657
<b>Sequel</b>	.071	.792	.076	.820	<b>Sequel</b>	-.048	-.601	-.044	-.525	<b>Sequel</b>	-.008	-.094	-.013	-.145
<b>IMDB Sc</b>	.055	.686	.073	.895	<b>IMDB Sc</b>	.030	.417	.038	.515	<b>IMDB Sc</b>	.134	1.750**	.136	1.725**
<b>Budget</b>	-.085	-.842	-.045	-.428	<b>Budget</b>	-.154	-1.829**	-.134	-1.512*	<b>Budget</b>	-.130	-1.472*	-.111	-1.187
<b>Drama</b>	-.017	-.241	-.004	-.056	<b>Drama</b>	-.043	-.656	-.035	-.529	<b>Drama</b>	-.069	-.973	-.060	-.821
<b>Romance</b>	-.009	-.108	.008	.096	<b>Romance</b>	-.081	-1.117	-.074	-.996	<b>Romance</b>	-.120	-1.523*	-.119	-1.473*
<b>Comedy</b>	-.022	-.273	-.017	-.204	<b>Comedy</b>	-.101	-1.364*	-.098	-1.284	<b>Comedy</b>	-.035	-.450	-.036	-.488
<b>Action</b>	-.034	-.423	-.021	-.260	<b>Action</b>	-.057	-.774	-.051	-.685	<b>Action</b>	-.099	-1.246	-.094	-1.152
<b>Family</b>	.187	2.521***	.211	2.813***	<b>Family</b>	.222	3.342***	.235	3.432***	<b>Family</b>	.064	.871	.077	1.008
<b>Sci-Fi</b>	-.029	-.421	-.023	-.324	<b>Sci-Fi</b>	-.022	-.338	-.017	-.250	<b>Sci-Fi</b>	-.047	-.670	-.046	-.629
<b>Scr WK 4</b>	.764	7.143***	.757	7.013***	<b>Scr WK 5</b>	.918	10.484***	.911	10.179***	<b>Scr WK 6</b>	.854	10.008***	.852	9.764***
<b>AUS Loct</b>			.106	1.189	<b>AUS Loct</b>			.054	.663	<b>AUS Loct</b>			.037	.421
<b>AUS Act</b>			-.062	-.766	<b>AUS Act</b>			-.035	-.481	<b>AUS Act</b>			-.052	-.659
<b>AUS Star</b>			-.136	-1.499*	<b>AUS Star</b>			-.071	-.831	<b>AUS Star</b>			-.027	-.289
<b>R<sup>2</sup></b>	.701		.716		<b>R<sup>2</sup></b>	.771		.775		<b>R<sup>2</sup></b>	.739		.741	
<b>F</b>	17.083***		13.884***		<b>F</b>	23.573***		18.231***		<b>F</b>	19.013***		14.534***	

\*\*\*, \*\* and \* are significant at 1%, 5% and 10% respectively.

The F-statistics of the partial and full models are significant in both regressions and all regressions explain significant variance in performance in all weeks ( $p < 0.01$ ).

Hollywood studios are non-integrated, and the integration coefficient is not significant and close to  $\beta = 0$  for Week 1 ( $\beta = 0.001$  and  $t = 0.007$ ), Week 4 ( $\beta = -0.066$  and  $t = -0.940$ ), Week 5 ( $\beta = 0$  and  $t = 0.007$ ), and Week 6 ( $\beta = 0.044$  and  $t = 0.651$ ). The integration coefficient is significant for Week 2 exhibiting  $\beta = -0.123$  and  $t = -1.784$  in the partial model and  $\beta = -0.109$  and  $t = -1.558$  in the full model and Week 3 with  $\beta = -0.188$  and  $t = -1.754$  for the partial model and  $\beta = -0.164$  and  $t = -1.474$  for the full model. This indicates that Hollywood studios outperform vertically integrated studios in the middle of the box-office release life cycle; thus, Hypothesis 1A and 1B can both not be rejected.

The results suggest that the most important predictors of box-office performance in a specific week are the number of cinema screens, which exhibit the film and whether the film is part of a sequel. The results also indicate that Hypothesis 1B is not supported given that the weekly integration variables in Table 4 are not significant and positive in any of the sampled six-week post-release periods.

Hypothesis 2 describes the expectation that there is an inverted, U-shaped pattern in the regression coefficients across the sampled weeks. The coefficients are close to  $\beta = 0$  at the start and after 4 weeks with a significant negative drop in coefficients in Week 2 and Week 3. This supports Hypothesis 2, albeit the pattern is weak and the integration advantage seems unable to overcome the dominance that Hollywood studios experience – even in an overseas market like Australia.

In the full model, a two-step approach was taken with Australian shooting location, Australian actors, and Australian top stars according to IMDB to assess the mediation of local content in the film that affects the relationship between vertical integration and box-office

performance. The results are generally upheld and show that the negative integration coefficients become somewhat smaller in Step 2 encompassing Week 2 and Week 3. Specifically, the coefficients drop from  $\beta = -0.123$  to  $\beta = -0.109$  in Week 2 and  $\beta = -0.188$  becomes  $\beta = -0.164$  in Week 3, thereby indicating that Australian integrated studios would perform worse at the Australian box-office if the films had not included any Australian locations, Australian actors, and/or Australian stars. Notwithstanding this, Hollywood still has an overall box-office performance advantage in the middle of the film's cinema box-office life cycle. Consequently, Hypothesis 2 is supported.

### **3.6 DISCUSSION AND CONCLUSION**

This article has investigated whether the performance at the box-office differs for films produced by non-constrained studios in Australia compared with constrained Hollywood studios. The results indicate that it does differ during certain periods of the film's box-office life cycle. I find that Hollywood films invariably exhibit superior performance at the box-office due to Hollywood's dominance over the global film market. However, the analysis indicates that comparable films produced through vertical integration mitigates Hollywood's dominance during the first week post-release and in later weeks of the film's box-office life cycle. These results are both statistically and economically significant. While there is weaker evidence of improved performance outcomes during the middle of the film's box-office life cycle, this period is not a significant indicator of a film's overall success. By and large, the findings are consistent with the view that integration improves a firm's ability to manage external costs and risk factors.

The findings suggest that Hollywood continues to dominate the global film market through its marketing, distribution, and promotional capability, superior product development and pricing capability, and high barriers to entry. In addition, the continuous exploitation of

intellectual property through its sequel strategy means that constrained Hollywood studios retain a competitive advantage over studios unconstrained by regulation. This significant global competitive advantage cannot simply be overcome merely by vertically integrated studios bringing new films to the market.

Consequently, I did not find a positive relationship between vertical integration and film performance that offsets Hollywood's dominance of the global film industry. Rather, the finding suggests that the effect of vertical integration on box-office performance is more subtle. I find that vertical integration mitigates certain disadvantages of not being a Hollywood studio during critical periods of a film's box-office life cycle. This results in improved box-office performance of vertically integrated films during the first and later weeks of a film's box-office life cycle.

The improved results for vertically integrated films appear to be a consequence of the un-constrained studio's better attunement to the local film market and consumers, which results in superior screen strategies at the box-office. Therefore, vertical integration allows non-constrained studios to use localized capabilities to develop better greenlighting, development, and release strategies for bringing new films to the market, thereby offsetting some of the inherent superiority of films produced by constrained Hollywood studios.

This article reveals numerous implications for both academic and theoretical development plus implications for managers and firms in the film and, more broadly, the global creative industry. The emergence of online streaming platforms and new global players in film from developing economies (most notably China) and their investments in developed countries are changing the global film-industry landscape. These vertically integrated firms compete for the same consumer base as traditional Hollywood studios which even today remain non-integrated as a result of the *United States v Paramount Pictures Inc*

(1948) decision. In this study, I examined a phenomenon that remains under-theorized: how does vertical integration affect film box-office performance? More specifically, I build on existing ownership-to-performance theories with context and industry-specific application. Given the wide range in performance outcomes from existing ownership-to-performance studies, I show that different types of industries may lead to different types of learnings and capabilities and may in turn influence different performance outcomes. I developed and tested a framework about the performance of films produced through vertical integration versus comparable films produced through non-integration. The conceptualization highlights not only the need to consider the effect of vertical integration upon box-office performance, but also Hollywood's dominance in the global film market.

Overall, the analysis suggests that the ownership-to-performance relationship is heavily dependent on industrial policy, as both internal and external factors may impact the resulting performance outcomes.

The results have several implications for practice in the motion-picture industry and possibly beyond. First, this article aims to help managers in the film and creative industry make better integration decisions regarding, for example when to vertically integrate; when not to integrate; and when to use alternative, quasi-integration strategies. While this study is focused on the film industry, the analysis suggests that vertical integration may be an effective, long-term strategy to improve firm performance where, 1) the market is risky and unstable, 2) firms in adjacent stages of the industry value chain have greater market power, 3) integration would create or exploit market power by raising barriers to entry or by allowing price discrimination across customer segments, and 4) where it is a new market and firms need to forward integrate to develop the new market value chain for bring products to market.

Second, in the competitive landscape of film, a firm's competitive advantage may be eroded by imitation and technological innovation. Vertical integration may be used as a strategy to seize opportunities and to extend existing capabilities in order to cope with the competitive environment. Through vertical integration, firms are able to quickly assimilate new and reconfigure existing knowledge across organizational boundaries within the firm to develop flexible and less rigid capabilities. While vertical integration may result in increased cost in the short term, the continuous change in industrial environment requires firms to constantly create new capabilities rather than merely extend current core capabilities. The results suggest that studios use vertical integration as a way to proactively compete with legacy Hollywood studios and to mitigate the performance advantage of being a Hollywood studio at critical periods during the film's exhibition life cycle.

This study places vertical integration strategy in the context of the competitive landscape of the film industry, with stress on knowledge development. After vertical integration, the results reveal improved performance during the first week and later week cycles, which are the most important periods of a film's box-office life cycle. Since box-office revenue accounts for only a portion of a film's possible total profit, improved performance at these critical junctures during the exhibition stage may be indicative of strong sales in the home-entertainment market and subsequent secondary revenue sources.

This study offers various avenues for future research. Vertical integration as an organizational strategy is used as the primary tool for alleviating transaction costs associated with the business exchange process. This sentiment is relevant and applicable to global film industry. Existing studies have shown that while vertical integration yields many benefits, performance outcomes are not free from internal (inherent and projected costs and risks associated with the integration process) and external (regulatory prohibition) factors.

This article has attempted to examine the performance outcomes in box-office performance which stem from vertical integration of film studios in both Hollywood and other vertically integrated jurisdictions. Performance of films at the box-office forms only a portion of the total cost-benefit analysis associated with vertical integration. The market-mitigating mechanism of vertical integration practiced by firms in the global film industry, as explained in this article, will invariably pose its own risks, set-up costs, and operating costs associated with maintaining a vertically integrated firm structure. Future research endeavor in this light may work toward examining the potential risk and cost associated with vertical integration strategies and the performance of any secondary revenue (subsequent TV deals, merchandise and home entertainment) resulting from films produced via a vertically integrated model in an attempt to develop a more comprehensive costs-benefits framework.

#### **4. STRATEGIC-INTENT OF CHINESE ACQUISITIONS IN WESTERN CULTURAL INDUSTRIES: A MIXED METHOD STUDY OF DALIAN WANDA**

##### **Abstract**

This article examines the strategic-intent of foreign acquisitions made by Chinese firms in Western cinemas. In particular, I focus on acquisitions by the Chinese conglomerate, Dalian Wanda (“**Wanda**”), in the film industry. The article examines alternative theories and explores propositions based primarily on business, financial and political motivations in Wanda’s takeover behavior. In-depth inductive analysis through a mixed method approach encompassing three unique studies are used to triangulate key motivators for Wanda’s foreign acquisition behavior. The study finds support for both types of intent. This study shows that there are clear interconnections between the two types of intent and that these connections may be more or less direct. This article contributes to existing theories regarding the links between ownership and performance and the impact of strategy process and strategy practice research by incorporating strategic-intent to examine the globalization strategy of Wanda.

**Keywords:** foreign acquisition, Dalian Wanda, strategic-intent, global cinema industry.



## 4.1 INTRODUCTION

Strategic-intent theory is among the most influential conceptual paradigms for understanding corporate strategy formulation (Lovas and Ghoshal, 2000; Mantere and Silince, 2007). Its venerable roots can be traced back to describe the rapid post-war growth of Japanese and Korean firms (Hamel and Prahalad, 1989). These firms pursued a relentless long-term growth strategy to achieve a chosen strategic objective (Rui and Yip, 2008). Strategic-intent is unique in that it provides long-term stability while making room for new and emerging opportunities (Hamel and Prahalad, 1989).

Strategic-intent's explanatory value has been felt in such diverse areas as strategic planning (Mintzberg, 1994), foreign acquisitions (Rui and Yip, 2008), corporate symbolism (Hart and Banbury, 1994), organizational culture (Smircich and Stubbart, 1985), and management legitimacy (Noda and Bower, 1996).

Existing studies have focused on business and financial motives in explaining strategic-intent (Hart, 1992; Hart and Banbury, 1994). However, recent literature has hinted that strategic-intent may include motives beyond the purely business and financial (Dunning and Lundan, 2008; Gemser et al., 2012; Cui, Meyer and Hu, 2014; O'Shannassy, 2016). For example, Dunning and Lundan (2008) discuss the importance of political considerations in corporate strategy formulation for Chinese firms.

Research on strategic-intent thus has further scope for development. For instance, there are diverging views on who ultimately drives strategic-intent within an organization: whether is the CEO (Green, 1988) or senior management (Lovas and Ghoshal, 2000; Rui and Yip, 2008). Likewise, strategic-intent has so far primarily focused on business and financial outcomes as measures of success (O'Shannassy, 2016). There are only limited theoretical and empirical studies which look beyond purely business or financial intent (e.g., Hart, 1992;

Hart and Banbury, 1994). Moreover, in-depth empirical strategic-intent studies as seen in Lovas and Ghoshal (2000) and Rui and Yip (2008) are rare; most studies are of a purely theoretical nature (e.g., Hamel and Prahalad, 1989; and Liedtka, 1998).

In this study, I seek to determine whether Western acquisitions made by Wanda in the cinema industry are based on business and financial intent or based on political intent. The goal of this article is to identify alternative strategic-intent theories and test hypotheses based not only on business and financial intent but also on political intent for globalization strategies of firms from emerging economies.

I propose an in-depth mixed methods study examining strategic-intent from a unique perspective. Mixed methods support the article's methodological rigor (Molina-Azorin et al., 2017) by: 1) balancing the needs of exploration with analysis (Liu and Woywode, 2013; Williamson, 2016); 2) providing a broader perspective of the overall issue (Rizvi, 2010); 3) mitigating the effects of personal bias (Jick, 1983; Johnson and Onwuegbuzie, 2004; Tashakkori and Teddlie, 2010); and 4) providing greater depth and variety of data sources (Denzin, 1978; Creswell and Creswell, 2017). I concentrate on the cultural industry because of the national significance and political sensitivity it exhibits through its ability to influence culture, values, and viewpoints. It may be an important tool for expanding national influence. This article focuses on the Chinese conglomerate Wanda, which has made numerous high-profile acquisitions of Western cinema and film assets.

#### **4.1.1 Cultural Industries**

The cultural industry is unique in that it may serve both a corporate and political purpose (Fligstein, 1996). On the one hand, the cultural industry is a growing industry, contributing some \$2.25 trillion or 3% of global GDP and creating over 29.5 million jobs

(EY, 2015). On the other hand, cultural industries can be used as strategic tools for exerting national influence (Keane, 2005).

The United States is the dominant global exporter of popular culture. American cultural values exert strong influence worldwide (Vlassis, 2015). In 2013, the cultural industry in the United States generated \$620 billion and 4.7 million jobs (EY, 2015). However, in recent years, the Chinese cultural industries have grown significantly (Keane, 2005). A major sub-sector within the cultural industry is film, which are the focus of this article. China is already the most important film market outside the United States. By 2020, it is expected that China will overtake the United States as the largest film market globally (Kokas, 2013). There is growing recognition within the Chinese Government that Chinese cultural industries may be a vehicle for exporting a positive Chinese narrative globally (Vlassis, 2015). Recent foreign acquisitions by Chinese firms in Western cultural industries may evince the fulfilment of this vision. If this is the case, the strategic-intent of these acquisitions may not be driven purely by business or financial motivations but may also be driven with political intent.

#### **4.1.2 The Wanda Factor**

Wanda is China's largest conglomerate operating in the cultural industry. Founded in 1988 by Wang Jianlin ("**Wang**"), Wanda has made a number of high-profile Western acquisitions in the cultural industry. In 2012, Wanda made its first investment outside China with its acquisition of AMC Theaters ("**AMC**") for USD\$2.6 billion. The acquisition made Wanda the world's largest cinema operator, a title which it still retains today, with over 6% and 13% of all cinema screens in China and the United States, respectively. In 2015, Wanda also acquired the Australian cinema Hoyts, and in 2016, it acquired Legendary Studio

(“**Legendary**”) and Carmike Cinemas in the U.S. and Odeon and UCI Cinemas Group in Europe. Table 4.1 lists all of Wanda’s completed foreign acquisitions in the film industry.

**Table 4.1: Wanda’s Completed Foreign Acquisition in the Film Industry**

<b>YEAR</b>	<b>FIRM</b>	<b>INDUSTRY</b>	<b>REGION</b>	<b>VALUE (\$USD)</b>
<b>2012</b>	AMC	Cinema	United States	\$2.6 billion
<b>2015</b>	Hoyts Group	Cinema	Australia and New Zealand	\$336 million
<b>2016</b>	Legendary Entertainment	Film Studio	United States	\$3.5 billion
<b>2016</b>	Propaganda GEM	Film Marketing	United States	Not published
<b>2016</b>	Carmike Cinemas Inc	Cinema	United States	\$1.1 billion
<b>2016</b>	Odeon and UCI Cinemas Group	Cinema	Europe	\$1.2 billion

In addition, Wanda has embarked on various joint ventures (including taking a minority stake in Sony Pictures for several upcoming film releases).

## **4.2 STRATEGIC-INTENT: FRAMEWORK AND PROPOSITION**

The core of the rational normative model for strategic-intent states that strategic objectives are developed through analysis of a firm’s internal and external environments. These strategic objectives are then turned into strategy and deliberately implemented (Andrews, 1971). Table 4.2 below provides a summary of representative strategic-intent studies.

**Table 4.2: Representative Strategic-Intent Studies**

Author	Year	Region	Industry	Strategic Focus	Method	Conclusion
O'Shannassy	2016	N/A	N/A	Strategic-intent in forming corporate strategy	Theoretical	Strong performing firms often have intents that state their ambitions for the future, which is communicated to stakeholders via the CEO.
Chen, Liu, Ni and Wu	2015	Taiwan	Engineering	International expansion informed by strategic-intent	Experimental design method	The strategic-intent perspective is the most influential factor in international expansion. The rational analyses of the strategic-intent perspective and market positions affect a firm's international expansion strategy.
Cui, Meyer and Hu	2014	China	Various industries	Foreign investment decisions are strategic actions.	Questionnaire	Strategic asset seeking is a critical action used to accelerate competitive catch-up with global leaders.
Maridoss, Johnson and Martin	2014	United States	Manufacturing	Strategic-intent and performance	Combined qualitative and cross-sectional quantitative study	“Strategic-intent can serve as an anchoring mechanism that drives and guides a firm's subsequent resource-allocation decisions.”

Kaplan and Orlikowski	2013	United States	Communication manufacturing	Temporal work in strategy formulation	Multiple-case-study	Temporal work in strategic decision making reduces risk of competency traps from the past – particularly in diminished business conditions.
Deng	2009	China	Consumer electronic	Strategic-intent in addressing competitive disadvantage	Multiple-case-study	The strategic-intent of Chinese firms which use cross-border merger and acquisition is to access and source strategic assets so as to address their competitive disadvantage.
Rui and Yip	2008	China	Information technology, telecommunication, and vehicle manufacturing	Strategic-intent in Chinese foreign acquisitions	Multiple-case-study	Strategic-intent is derived from top management. Long-term objectives are a source for inspiration to focus firm-wide resources.
Kaplan	2008	United States	Communication manufacturing	Framing contests in forming strategy	Case-study	Strategic-intent is not only driven from top management but framed by all strategy actors through a dynamic and political process.
Dunning and Lundan	2008	N/A	N/A	Strategic-intent from the perspective of institutional analysis	Theoretical	Strategic-intent promotes economic efficiency, growth, and social wellbeing.

Deng	2007	China	Consumer electronic	Strategic-intent is driven by resource constraints in the home country.	Multiple-case-study	To understand the strategic-intent of mergers and acquisitions by Chinese conglomerates, there is a need to better understand the institutional environment in which they are embedded.
Mantere and Sillince	2007	N/A	N/A	Strategic-intent as a rhetorical device	Literature study	“Strategic-intent represents a proactive mode in strategizing, a symbol of the organization’s will about the future, which energizes all organizational levels for a collective purpose.”
Burgelman	2002	United States	Semi-conductor memory	Strategy as vectors for long-term organizational adaptation	Comparative longitudinal study	There is a limit to the CEO’s ability to frame a firm’s strategic-intent.
Lovas and Ghoshal	2000	Denmark	Hearing-aids	Corporate evolution guided by strategic-intent	Case-study	Strategic-intent relates to a firm’s long-term objectives. Statement of objectives articulated by top management.
Liedtka	1998	United States	Information technology	Strategic thinking	Theoretical	Strategic-intent helps focus the firm’s overall strategic thinking.
Mintzberg	1994	N/A	N/A	Role of strategic-intent in strategy making	Literature study	Vision plays an important role in strategy making.

Hart and Banbury	1994	Japan and Korea	Consumer electronics	Strategic-intent in strategy formulation	Questionnaire	Symbolisms are strong predictors of strategic-intent performance.
Hamel and Prahalad	1994	Japan, United States, and the United Kingdom	Information technology	Future focused competition	Literature study	Strategic-intent is an organizational dream, emotion, and distillation of strategy, objective, and mission to succeed. “Strategic-intent ... conveys ... a sense of direction ... sense of discovery ... it implies a sense of destiny.”
Hart	1992	United States and Europe	N/A	Strategic-intent in formulating corporate strategy	Theoretical	To have buy-in to a firm’s strategic-intent, it must be appealing and symbolic.
Prahalad and Hamel	1990	Japan and United States	Information technology	Strategic-intent as a firm’s core competency	Theoretical	A firm’s strategic architecture is a roadmap for the future. Therefore, strategic-intent as a firm’s core competency is a valuable firm-wide resource.
Hamel and Prahalad	1989	Japan and Korea	Construction	Strategic-intent	Theoretical	Strategic-intent is a shared obsession to succeed. It focuses a firm’s long-term objectives and resources on one single objective: to win.



The resource-based view further develops the concept of rational analysis by providing commentary on a firm's internal strengths and weakness, which influence the objectives that firms will pursue (Huff and Reger, 1987). The resource-based view regards internal capabilities as the primary determinant of a firm's competitive advantage (Barney, 1991). While this may be true for firms which operate in a free-market environment, firms from developing nations also need to contend with external factors which may be just as important as internal capabilities. For example, Hitt and Tyler (1991) propose that strategic-intent is influenced by both internal and external factors, which may include political interference in internal firm decisions. I build the framework upon this integrated approach by incorporating two key elements in the model: 1) political intent, and 2) business and financial intent. Given that strategic-intent may have multiple purposes (Sun, 2010), this article seeks to provide a hierarchical strategic-intent order. A series of research propositions are developed to reflect this model.

#### **4.2.1 Political Intent**

The Chinese Government plays a significant role in shaping the foreign acquisition behavior of Chinese firms (Dunning and Lundan, 2008). As Deng (2004) noted, “[*the*] Chinese Government has, to a great extent, played a crucial role in shaping the structure of China's approved outward investment.” Even with the gradual liberalization of the economy, China is still a state-controlled political economy in which the Government plays an active role in transactions and performance (Deng, 2004). On the one hand, the Government informs formal regulations and policy at the national and provincial levels (Dunning and Lundan, 2008). On the other hand, more informal institutional frameworks – such as firm-government relationships, political connections, and other informal networks (known as Guanxi) – play a leading role in shaping the business behavior of private Chinese firms (Peng and Heath, 1996).

Previous studies have shown that Chinese firms can conduct successful foreign acquisitions due to their ability to leverage country-specific advantages (Sun, 2010). These country-specific advantages are informed by government policy and support (Sun, 2010). Other theories posit that nationalism and pride may inform both the target firm and location choice for foreign acquisitions made by large Chinese conglomerates: Hope, Thomas, and Vyas (2011) suggest that the ability of Chinese firms to acquire leading Western firms is a source of national pride which allows for the spread of Chinese soft power through economic dominance.

***Proposition 1:*** *Foreign acquisitions by Wanda in the film industry are driven by political intent.*

#### **4.2.2 Business and Financial Intent**

Internal business and financial strength forms an important prerequisite for a firm's internationalization success (Barley, 1991). Strategic-intent using rational analysis has shown that firms cannot fully globalize until they can utilize their substantial competitive advantages in a foreign market (Andrews, 1971). The rational-analysis model further posits that, prior to undertaking foreign acquisitions, senior management will develop strategies by conducting market analyses on both internal and external factors (Huff and Reger, 1987). Strategic decision-making, therefore, is sequential, logical, and driven primarily by business-efficacy considerations (Huff and Reger, 1987). The resource-based theory regards a firm's firm-specific resources as the prime determinant of its competitive advantage (Barley, 1991).

Amit and Schoemaker (1993) define a firm's strategic firm-specific resources and capabilities as "*the set of difficult-to-trade-and-imitate, scarce, appropriable and specialized resources and capabilities*", which they argue directly contributes to the firm's future growth and long-term financial viability. Firms often find that, beyond a certain size, they are

constrained in their ability to develop new and novel resources and capabilities in their home country (Nelson and Winter, 1982). These firms also face challenges in acquiring specific resources and capabilities on the open market as a single entity. This forces firms to undertake foreign acquisitions as a means of rebalancing domestic competitiveness (Homburg and Bucerius, 2005).

Compared to many Western conglomerates which have been operating globally for over a century, Chinese conglomerates are latecomers. Ordinarily, these firms would control much less in the way of firm-specific resources than their respective Western counterparts (Rui and Yip, 2008; and Deng, 2007). Therefore, in order for Chinese conglomerates to compete effectively in a global setting, they need to quickly acquire strategic resources which match or exceed the level of the strategic resources of their Western competition (Homburg and Bucerius, 2005). Foreign acquisition represents an efficient and effective method of acquiring these strategic resources when the home country lacks the expertise for effective resource generation (Hitt et al., 2001).

***Proposition 2:*** *Foreign acquisitions by Wanda in the film industry are driven by business and financial intent.*

#### **4.3 METHODS**

Researchers have called for rigorous inductive studies examining strategic-intent as a motivation for the internationalization strategy of firms from emerging economies (Deng, 2009; Rui and Yip, 2008; Hamel and Prahalad, 1989). For this article, I carried out three in-depth, inductive studies using both qualitative and quantitative data to explore and triangulate the propositions (Eisenhardt and Graebner, 2007). Several previous studies have examined foreign-acquisition activities using a mixed-methods approach (Rizvi, 2010; Liu and Woywode, 2013; Williamson, 2016). Studies using a mixed-methods approach to explore and

triangulate key themes have found the following: First, triangulation using mixed methods produces deeper insights than single-method studies do (Denzin, 1978; Creswell and Creswell, 2017). Second, methodological integration employed in examining the same phenomena can provide a more “*complete, holistic and contextual portrayal of the subject under study*” (Rizvi, 2010). Third, weaknesses and limitations in individual methods can be counterbalanced and mitigated (Jick, 1983; Johnson and Onwuegbuzie, 2004; Tashakkori and Teddlie, 2010). Finally, utilizing a mixed-methods approach “*can provide the necessary empirical intricacy and rigor to match the complexities of organizational phenomena*” (Molina-Azorin et al., 2017 p. 179).

In the first study, I induct intent using qualitative data. Qualitative data is widely used in the study of media and cultural industries (Altheide and Schneider, 2013). In this article, qualitative data plays a critical role in providing valuable primary and secondary insights about the intent of Wanda’s Western cinema acquisitions. In the second study, I induct intent by using corporate financial data. Quantitative financial data aims to provide further rigor to the theoretical concepts expounded in the first study by validating the performance of key strategic initiatives at the operational level. In the third study, I further induct intent from film and box-office data. Film and box-office data provides further validation on the results from the first and second studies. Where possible, I collected data for the inductive studies from separate sources so as to avoid common methods bias.

Inductive analysis allows for a systematic approach to new concept development and grounded theory articulation by bringing qualitative rigor and transparency to inductive research (Fischer, 1982). By opting for an inductive approach, the propositions can be more grounded, accurate and general (Yin, 2003). The diversity of the data sources creates a rich combination of data with which to explore and triangulate the propositions.

## 4.4 STUDY 1

### 4.4.1 Data Collection

The extensive qualitative data source includes interviews, pertinent statements, reports, speeches, news items, scholarly articles, and press releases in relation to Wanda's Western cinema acquisitions. Selection of the qualitative data is based on two criteria. First, the commentary must be made by a senior executive of Wanda, AMC or Hoyts. Alternatively, commentary may also come from a senior Chinese Government official. Second, the qualitative commentary must relate to Wanda, AMC or Hoyts. The qualitative data is collected from a variety of sources. Ostensibly, Wang's book, *The Wanda Way* (2016), provides extensive scholarly insight and includes 12 interviews and speeches given by Wang. Given that strategic intent is driven from the top (O'Shannassy, 2016; Rui and Yip, 2008), heavy emphasis is given to statements made by Wang. In addition, press releases and annual reports of Wanda, Hoyts and AMC provide further narrative to the qualitative data. Other qualitative data is identified by conducting Google searches with search terms which meet the selection criteria. The qualitative data ranges from 2010 to 2017. This captures all of Wanda's Western cinema acquisitions from 2012 to 2017. The two additional years between 2010 to 2012 provide for policy and strategy changes and implementation at the corporate level, which reflects Wanda's decision to start acquiring Western cinema assets in 2012.

I employ thematic analysis to identify common themes evident in the qualitative data. All qualitative data is transcribed, coded, and analyzed using NVivo. NVivo allows for the classifying, sorting, arranging, and exploring non-numerical and unstructured data (Crowley et al., 2002; Bazeley and Jackson, 2007). I coded for both business and financial intent as well as for political intent. There were 3 sub-categories for business and financial intent and 2

sub-categories within political intent. Various quotes that address the coded categories were assigned from the qualitative data.

Out of 474 pages of text, the qualitative data-set contains over 226 literal quotes, of which around 80% are from Wanda's founder, 10% are by Wanda's key management personnel, 5% are by government officials, and 5% are from expert commentators. The intent of documents which form the qualitative data are also unique and varied: Around 17% are designed to provide an update on Wanda's activities, 13% are information for the general public, 27% are about Wang's management philosophy, 30% are interviews, and 13% are on government policy and policy implementation. This unique set of qualitative data provides a rich narrative to explain and support Wanda's strategic-intent for its Western acquisitions.

#### **4.4.2 Results**

##### ***Chinese Government Intervention in Wanda's Foreign Acquisitions***

The State is a significant factor in understanding foreign acquisition activities by Wanda. The qualitative data shows a close relationship between corporate China and the Chinese Government. During a speech at Harvard University, Wang commented that,

*“Government-business relations are very complicated in China... It's difficult to develop a successful private company of scale in China...The Chinese economy and the Asian economies in general are dominated by the government, and no one can work around government-business relations.”*

This relationship can often be complex. The difficulty lies in reconciling the firm's own financial aspirations with the political objectives of the Government. On the one hand, the Chinese Government provides strategic support to firms undertaking foreign acquisition. Government support typically includes subsidies, loans, tax rebates, and investment

insurance. This support offsets some of the inherent competitive disadvantages of Chinese firms. On the other hand, the Chinese Government also provides political guidance in the strategic direction of China's largest corporations. This includes using private businesses to achieve a political outcome.

Wanda recognizes the importance of the Chinese Government in supporting the firm's business, financial and strategic aspirations. Speaking at Tsinghua University, Wang said *"...the Government dominates everything and makes the most crucial decisions. If a businessman detaches himself completely from the Government, I think that's not right."* The challenge that Chinese conglomerates face is properly reconciling the balance between business and politics or in Wang's words *"stay[ing] close to the Government but away from politics."*

Chinese policy-makers have long acknowledged Western foreign acquisitions as a precondition for Chinese firms to effectively compete in the global market. Since October of 2000, the Chinese Government has actively encouraged Wanda to undertake foreign acquisitions as part of its "Go Global" strategy. In an interview with the *South China Morning Post*, Wang said that,

*"Private companies that go global to expand their business are answering the call from Government. At the end of last year, China's State Council specifically released specifications to guide private companies going global. It can be said that Wanda answered that call."*

Specifically, this strategy focuses on encouraging domestic firms to acquire investments in research and development and other areas of advanced technologies to support domestic innovation. In a circular published in October of 2004, the Ministry of Commerce expressly encouraged firms to invest in overseas research and development centers to, *"utilize*

*internationally advanced technologies, managerial skills and professionals.”* Such encouragement is aimed at the Government’s efforts to accelerate China’s domestic innovation capabilities by effectively leveraging foreign resources, knowledge, and expertise.

The results also reveal that private firms are highly susceptible to changes in government policy. In particular, large, privately-owned conglomerates can be the focus of targeted government action. Two recent Government policy changes have affected Wanda’s business and financial intent aspirations. First, on 16 July 2017, the China Banking Regulatory Commission instructed all domestic banks to cease financing several of Wanda’s Western acquisitions in the entertainment sector. The inability to recapitalize debt has put a number of Wanda’s future films in jeopardy. Second, the restrictions on capital outflow from China have resulted in difficulties relating to the transfer of funds abroad to meet the firm’s financial commitments. This inability to transfer capital has resulted in the firm being unable to settle its acquisition of Dick Clarke Productions, worth over \$1 billion.

The active support and intervention by the Chinese Government in supervising Wanda’s Western acquisitions evinces political intent to use corporate China to achieve specific political objectives; thus, Proposition 1 cannot be rejected.

### ***Spreading China’s Soft Power***

The qualitative data also shows that the exhibition of Chinese films to Western audiences may indicate China’s desire to spread soft power. This can be inferred, 1) from the active support by the Chinese Government in encouraging Wanda to establish channels in the West by granting Chinese film producers greater access to Western consumers, and 2) from the increasing number of Chinese films exhibited in Western cinemas.

Wanda views its foreign acquisitions as a vehicle to push positive Chinese narratives globally. In a speech to the China Business Leaders Forum, Wang noted that “...*news about*



*China are usually negative in foreign media. And where do people get information and knowledge? The media... That's why we want to establish a channel for the world to understand China."*

The need to improve China's global image has been a growing concern for the Chinese Government. The cultural industry is a pillar industry according to China's Five-Year Plan, which means that the Chinese Government actively supports the expansion of Chinese cultural industries abroad. John Zhang, a Professor of Marketing at the Wharton School and Director of the Penn Wharton China Center, notes that there is a *"concerted effort in China to move into the global entertainment and media industry to build China's soft power... Aside from being good business, it is a way to protect China's influence in the world."* At the macro level, cultural industries in China have received significant focus following the publication of the Government's Cultural Industries Stimulation Plan (the **"Plan"**) (2009). In particular, the Plan has provided Chinese firms operating in the cultural industries with strong political support to undertake foreign acquisitions with a particular focus on the film industry. In 2010, the state council, together with nine other Government ministries, released guidelines related to how the Government can support firms undertaking foreign acquisition activities in the film industry.

Wanda views the Chinese Government as the leading force setting China's international cultural policy, while corporate China is responsible for executing the Government's plans. Wang has previously said that, *"we must rely on private enterprise for culture to go out."* Wanda supports this policy by acting as the *"main force to promote Chinese culture."*

Wanda promotes Chinese culture for two reasons: First, as a private enterprise, it is easier to get foreign investment approvals both in China and abroad. Wang has previously

said that, *“we acquired the British European cinema that went through more than 20 countries for approval, and we have received formal approval last week. If a [Chinese] state-owned enterprise went for this task, it may not be approved.”* Likewise, Wang has also noted that, in the case of their acquisition of AMC, *“we [Wanda] got approvals from the Department of Commerce and the Department of Homeland Security within one month, half a month earlier than approvals from the Chinese Government.”* Second, foreign investments made by private enterprises cause less resentment and greater enlightenment than acquisitions made by state-owned enterprises (“SOE”). Wang noted that, in the West,

*“abrupt propaganda will not work. Private enterprises take their own money to do it, and they want profitable revenues, so they would work hard to achieve others’ approvals and purchases. It may be easier for us to find a balance between the cultural greatness and the market, so that we can make Chinese culture become Chinese national treasure and more acceptable to foreigners.”*

The qualitative data also shows that the main way Wanda promotes Chinese culture is through mandating the number of Chinese films exhibited in its Western cinema assets. Since Wanda’s acquisitions of AMC and Hoyts, the number of Chinese films shown in these cinemas has steadily increased. Speaking about the rise of Chinese films at the Shanghai Cultural Industry Development Lecture Course, Wang noted that,

*“I require them [AMC] to screen at least five Chinese films annually. I’ll give you some data: in 2012 we merged with AMC, and in that year we released eight Chinese films. In 2013, we released 13 Chinese films. This created a history of China in the United States. One year before this, just screening one Chinese movie was not bad, and that basically was not market-orientated.”*

The increase in the number of Chinese films exhibited in Western cinemas may suggest political intent given that Chinese films have not traditionally performed well financially outside China. In Wang's own words: In the past, "*the state invested money to contract several [Western] cinemas to screen one movie twice, and at once it was returned.*" The move towards more "*marked-orientated*" Chinese films may indicate business and financial intent. However, I suggest that the market-orientation of the Chinese film market enables it to be sustainable in the long-term. Therefore, market-orientation may still suggest political intent. Consequently, Proposition 1 may nonetheless be supported.

### ***Acquiring Firm-Specific Resources***

The qualitative data shows that Wanda needs to acquire firm-specific resources to quickly scale up its business and overcome inherent competitive disadvantages. *Firm-specific resources* refer to those specialized assets and capabilities which have been developed over time and are proprietary, difficult to imitate, trade, and acquire in the open market.

Foreign acquisitions allow Wanda to quickly increase its size and market power. Gordon Orr, a Senior Advisor to McKinsey China, notes that,

*"Chinese business leaders recognize that many elements of the entertainment business are fully global and if they are to maximize their revenues they need to be able to seamlessly access global markets. Making international acquisitions can accelerate their ability to do so."*

Wang has said that "*it's virtually impossible to scale up a business by relying on organic growth alone. None of the Fortune 500 companies managed to grow to the size that they have today without M&A.*" As such, Wanda's foreign acquisitions are used as a way to grow and expand the business globally. During the AMC acquisition ceremony, Wang commented as follows: "*we have grown more than 40% over the last five years...Because our*

*growth is taking place so fast, we have developed global strategic goals, in addition to the development in China. The acquisition of AMC became our first step of globalization.”* This globalization strategy allows Wanda to acquire a stronger market position; accelerate the process of entering foreign markets; acquire established purchase, distribution and sales networks; and move up the value chain.

Foreign acquisitions also allow Wanda to overcome competitive disadvantages by acquiring firm-specific resources to increase its global competitiveness. Wanda recognizes that, for it to be globally competitive, it needs more than mere economies of scale, as scale advantage is reflective of a countrywide factor that is evident in all firms of the size. Gordon Orr notes that, *“many Chinese entertainment companies have a lot of capital; they may feel short of opportunities to deploy this capital in China and see easier opportunities to do so internationally.”* Wanda seeks to acquire firm-specific resources in three ways:

First, Wanda seeks to improve its firm-specific advantages through collaboration with foreign firms. This is evident in Wanda’s partnership with Sony to cooperate on multiple big-budget films. In a statement, Wanda said that, *“The alliance will help strengthen Wanda's power to influence the global film industry, and set a good precedent for Chinese film producers in their international investment.”* In addition, Jack Gao, Wanda's Head of International Investment and Operations, said *“Wanda would continue to seek alliances with other content companies and closer relationships with leading media firms.”* These collaborative initiatives provide significant technology and capability-transfer benefits to Wanda. However, collaboration with foreign firms may also induce reliance on the foreign partner for technology and capabilities rather than lead to the development of Wanda’s own specialized resources.

Second, open-market competition with both domestic and foreign firms incentivizes Wanda to actively engage in seeking out firm-specific resources in order to survive and grow in its domestic market. The open market also provides impetus to grow outside the domestic market where there are opportunities for strategic growth in other established markets.

Third, Wanda acquires firm-specific advantages via foreign acquisition in Western markets. Through these acquisitions, Wanda can quickly and efficiently acquire expertise in the form of managerial know-how, assets, market share, technology, and established business networks in an established market.

I note that, while firm-specific resources may be captured through collaboration, competition, and acquisitions, dissemination of this knowledge within the broader firm requires substantial time as part of the post-acquisition integration process. However, Wanda's investment approach is one that reflects a long-term view on growing its capabilities. Wang has previously said that *"...like some of our overseas cultural industry investment, we also need to be patient for China's film industry to develop. Private enterprises have longer boss tenure, so the CEO will usually consider a more long-term strategy."* In addition, speaking on the AMC acquisition, Wang commented that, *"...the point in which we are different from the previous AMC shareholders is that, after we bought AMC, we will never sell it."* I find that Wanda's strategic decision-making is geared towards this long-term outlook. This long-term outlook in Wanda's investment is shared by Gerry Lopez, CEO of AMC: *"[Wanda is comprised of] long-term folks [who] don't run their business on a week-in, week-out or quarter-in and quarter-out basis. They are investing for the long-term."* Similarly, Damian Keogh, CEO of Hoyts, remarked further: *"The Chinese business mentality has this 100 year philosophy on what they're doing and where they're going. I met with him [Wang] the morning after the Chinese stock market crash and had lunch that day; he was showing no signs of concern. He doesn't have a short-term view, everything is long-term."*

This long-term investment outlook supports business and financial intent in establishing and building its capabilities and networks to develop into a global conglomerate. This tends to support the premise expounded in Proposition 2.

### ***Building Global Competitive Advantage***

The qualitative data show that firm-specific resources allow Wanda to build its global competitive advantage. The acquisition of firm-specific resources builds the firm's capability to innovate, change, and modernize. In a speech to Huashang College, Wang said *"we need to create stronger competitive advantage, with higher entry barriers and specialization...a business that requires creativity and special talent."* This need to acquire firm-specific resources is driven by strong domestic competition. Wanda's foreign acquisitions allow the firm to address two resource disadvantages: first, its access to advanced technology and second, management expertise.

The acquisition of technology through the cross sharing of intellectual property is a primary motivation for Wanda's Western acquisitions. Damian Keogh commented to reporters on Wanda's apparent open flow of information between its different business units and firms, noting:

*"Wanda has 200 cinema complexes in China at the moment. By 2020 they'll have 1000. We had some very good meetings with AMC, Wanda and Hoyts about a lot of shared intellectual property; how we run our cinema businesses, and a really strong focus on customers and how we communicate. We have a loyalty program at Hoyts of about half a million customers so there's a lot of focus on how we communicate directly with them and particularly through mobile."*

The need for technological acquisition and expertise is driven by Wanda's motivation to move their film-and-cinema business from the cheap to the sophisticated. Wanda seeks to

build up the supply chain for bringing films to market. This is done through two complementary strategies. First, Wanda strives to increase the appeal of Chinese films to an international audience. This is achieved by putting together the domestic infrastructure needed to enable an increase in film production and quality and by acquiring well-known international studios to extract technology distribution networks and to leverage existing brand awareness. Second, Wanda seeks to expand its market share in cinemas. This is achieved both by expanding its domestic network of cinemas and by acquiring cinemas in established markets. This combined approach is motivated by, 1) the need for Wanda to have better control over cinema content, 2) the need to share intellectual property to facilitate accelerated market growth, and 3) the need to accelerate its international expansion into new markets through injection of capital.

The acquisition of management expertise is another key component of Wanda's broader market-competitiveness strategy, and it forms one of Wanda's core purposes in acquiring Western cinema assets. This strategy, exemplified through the sale of secondary film-related products, is a straightforward effort to raise margins by diversifying out of the lower-margin enterprises into higher-margin enterprises. This is done by sharing knowledge and expertise in the acquired assets and by observing the operations of acquired assets. One example of this strategy is Wanda's aspiration to increase its secondary cinema revenue not associated with ticket sales. In an interview with the Australian Financial Review, Damian Keogh noted that *"China has this massive growth in cinemas but they make about 80¢ per customer in the candy bar whereas we're close to \$5...They look at us and say, 'What can you teach us? How can we learn from you?'"*

I further observe that Wanda places a high value on innovation through its acquisition of firm-specific resources. Innovation allows Wanda to gain a competitive edge against competitors and provides *"pricing power derived from the fact that they [Wanda] have*

something that others don't, which allows them to yield more profits than the competitors." In a speech to Tsinghua University, Wang commented as follows:

*"There are 130 cinema chains in China, and Wanda's screens account for less than 7% of the national total, but we generate 15% of the total revenue created by all Chinese cinemas combined. Each of our screens yields more than twice the average revenue and three times the average profit in the industry. These are the benefits that can be realized through innovative management."*

These efforts by Wanda to build its competitive advantage by developing capabilities in technology and management evinces a strategic narrative built on business and financial intent, supporting Proposition 2.

### ***Competing by Collaboration***

Wanda's foreign acquisition activities are aimed at supporting growth and improving competitive advantage in both the domestic Chinese market and in Western markets. To achieve this, collaboration between different areas of the firm form an important part of its long-term growth strategy. In a speech at the China Green Companies Summit, Wang noted that,

*"Wanda currently has operations in commercial property, cultural tourism, finance and departmental stores. Whether Wanda employs asset-light or asset-heavy methods of development, these four industries support and complement one another. Previously, Wanda developed cinemas, electronic game arcades and discount KTV (karaoke systems) in order to provide mall customers with a vibrant experience, and this required substantial support from cultural and entertainment fields."*



I observe that collaboration forms a vital part of Wanda's broader strategic plan in three ways.

First, through Wanda's foreign acquisitions, the firm promotes the sharing of resources, intellectual property, technology, and expertise across all of its divisions and subsidiaries, thereby allowing the whole firm to benefit from advancements made in one area of the business. This collaborative sharing of resources can be witnessed in Wanda's approach to entering new markets. Wang has noted that, *"the reason for buying [AMC] is to develop it, to support it, to do better. [Therefore] we also promised to invest \$500 million over the next three years to upgrade a rather large number of AMC theatres"*.

Second, Wanda's foreign acquisitions also allow the firm to diversify both its investment choices and its investment locations. When asked by a reporter from the *Financial Times* what attracted Wanda to acquire AMC, Wang responded that *"You don't put all the eggs in one basket."*

Third, in relation to the film-and-cinema business, collaboration and vertical integration allow Wanda to gain a competitive advantage against traditional Hollywood studios, which are prohibited from owning cinemas by anti-trust law.

The ability for Wanda to own the entire value chain gives the firm a clear competitive edge over rival competitors due to regulatory constraints. The fact that Wanda owns both the largest cinema network in the world and one of the leading Hollywood studios allows it to have a competitive advantage over both existing Hollywood studios and other major Western cinema chains. Wanda's current investments in the cinema industry allow it to ensure that its own films are given the most prominence and longest screen time over competitor films. The firm has also said it wants to control 20% of global box-office ticket sales by 2020.

These collaborative initiatives to build up the capability of the broader Wanda group evinces business and financial intent in the firm's Western cinema acquisitions, which is suggestive of Proposition 2.

## **4.5 STUDY 2**

### **4.5.1 Data Collection**

In addition to the qualitative data used in Study 1, I also collect quantitative financial data for AMC, Hoyts and Wanda through their corporate annual reports. Given that Hoyts is not a publicly listed firm, I have collected its financial performance data from Wanda's consolidated financial statements. The data encompasses financial results from 2009 to 2016 for AMC and from 2011 to 2016 for Wanda and Hoyts, thereby covering both pre and post-acquisition periods. The financial data includes 1) data directly collected from annual reports: revenue, profit, net income, cash from operations, total assets and equity, and 2) financial ratios computed using annual report data: return on asset, return on equity, profit margin, and cash-flow margin.

The financial results provide a base to explore the propositions and allow for pre and post-acquisition comparison using t-test. They provide a clear picture of the financial performance of these strategic assets both prior to and after acquisition. This allows for patterns of financial performance to be observed in Wanda's foreign acquisitions and helps us determine whether theoretical narratives expounded in the qualitative data reflect the real-world operating environment. I recognize that external factors may impact on the firm's financial performance thus affecting the financial data. However, given the aims of this article is not hypothesis testing but rather proposition exploration, the absence of external factors in these financial results does not detract from the empirical relevance and soundness of the financial results. Strong financial performance after the acquisition may suggest that

acquisitions are made for business and financial intent, whereas consistently weak financial results post-acquisition may indicate the absence of business and financial intent.

#### 4.5.2 Results

*Prima facie*, the financial data does not suggest political intent. This is because both acquirees' overall post-acquisition financial performance has improved significantly. These financial results support the firm's broader foreign investment strategy and suggest that its priority is to make a profit and create value for shareholders. Comparison of the pre and post-acquisition annual financial results of AMC and Hoyts show substantial improvements in financial performance across most indicators. I suggest that these performance improvements are a direct result of Wanda's foreign investment approach, which involves identifying and acquiring loose-brick assets within established Western cinema markets.

#### AMC

AMC's financial performance has seen substantial improvements since Wanda's acquisition in 2012. Table 4.3 shows the firm's pre and post-acquisition financial indicators between 2009 and 2016.

**Table 4.3: Pre-acquisition vs. Post-acquisition Financials for AMC (million USD except ratios)**

	Pre-acq	Post-acq	Difference	t- test
	average	average		
Total revenue	2,353.1	2,906.9	553.8	0.014**
Gross Profit	349.6	532.8	183.2	0.009***
Net income	-81.1	161.0	242.1	0.07*
Cash from Ops.	116.7	388.5	271.8	0.013**
Total assets	3,801.9	5,885.2	2,083.2	0.114
Total equity	361.3	1,642.1	1,280.8	0.000***

ROA	-0.023	0.027	0.050	0.012**
ROE	-0.222	0.123	0.345	0.049**
Profit margin	-0.035	0.056	0.091	0.078*
Cash flow Margin	0.049	0.133	0.084	0.081*

\*\*\*, \*\* and \* are significant at 1%, 5% and 10% respectively.

AMC's post-acquisition results reveal that its total revenue has grown over 21%, gross profits over 33%, net income over 104%, and profit margins over 75%. The t-test also revealed a 5% significance for return on equity and return of assets and 10% significance for profit and cash flow margins. Similar performance improvements were also evident in AMC's cash from operations, total assets, and total equity.

### *Hoyts*

Hoyts was acquired by Wanda in 2015. The financial results in Table 4.4 focus on Hoyts' financial performance during the period from 2011 to 2016.

**Table 4.4: Pre-acquisition vs. Post-acquisition Financials for Hoyts (million AUD except ratios)**

	Pre-acq	Post-acq	Difference	t- test
	average	average		
Total Revenue	355.3	421.9	66.63	0.118
Net Income	1.0	38.2	37.2	0.003***
Total Assets	608.0	984.7	376.7	0.749
Total Equity	64.3	354.4	290.1	0.373
ROA	0.002	0.09	0.088	0.003***
ROE	0.002	0.038	0.036	0.005***
Profit Margin <sup>1</sup>	-0.016	0.107	0.123	0.12

\*\*\*, \*\* and \* are significant at 1%, 5% and 10% respectively.

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<sup>1</sup> Cash flow data for Hoyts is not available in Wanda's consolidated annual reports.

The financial results reveal that Hoyts has also experienced significant financial improvement post-acquisition. Since 2015, the firm's total revenue and net income grew by over 26%. The t-test also shows a significance of 1% for return on assets and return on equity.

### ***Wanda***

Wanda Cinema's financial results are shown in Table 4.5, which covers the period between 2011 to 2016 and encompass its acquisition of AMC in 2012 and of Hoyts in 2015. Table 4.5 shows Wanda's pre-AMC and post-AMC financial performance, while Table 4.6 shows the firm's pre-Hoyts and post-Hoyts financial performance.

**Table 4.5: Pre-acquisition vs. Post-acquisition Financials for Wanda (Thousands million CNY except ratios)**

	<b>Pre- AMC acq</b>	<b>Post AMC acq</b>	<b>Difference</b>	<b>t- test</b>
	<b>average</b>	<b>average</b>		
Total revenue	2,208.7	4,130.9	1,922.2	0.287
Gross Profit	799.5	1,391.9	592.4	0.318
Net income	305.2	597.3	292.1	0.345
Cash from Ops.	433.6	1,063.4	629.8	0.094*
Total assets	1,911.7	3,541.3	1,629.6	0.290
Total equity	1,211.9	2,268.8	1,056.9	0.323
ROA	0.160	0.166	0.006	0.730
ROE	0.252	0.261	0.009	0.676
Profit margin	0.138	0.143	0.005	0.789
Cash flow Margin	0.196	0.263	0.067	0.223

\*\*\*, \*\* and \* are significant at 1%, 5% and 10% respectively.

The post-AMC acquisition years included in the above table are before the Hoyts acquisition. Whilst the post-acquisition financial performance of Wanda has improved, none

of the differences in financial ratios is significant. The increased financial performance in AMC does not affect the overall Wanda Group in the short-term.

**Table 4.6: Pre-Hoyts Acquisition vs. Post-Hoyts Acquisition Financials for Wanda**  
(Thousands million CNY except ratios)

	Pre- Hoyts acq	Post Hoyts acq	Difference	t- test
	average	average		
Total revenue	3,650.3	9,605.0	5,954.7	0.013**
Gross Profit	1,243.8	3,123.7	1,879.9	0.011**
Net income	524.3	1,276.1	751.8	0.013**
Cash from Ops.	905.9	2,008.3	1,102.4	0.014**
Total assets	3,133.9	17,275.2	14,141.3	0.001***
Total equity	2,004.6	9,753.6	7,749	0.000***
ROA	0.165	0.074	-0.091	0.001***
ROE	0.259	0.131	-0.128	0.000***
Profit margin	0.142	0.135	-0.007	0.597
Cash flow Margin	0.247	0.217	-0.03	0.517

\*\*\*, \*\* and \* are significant at 1%, 5% and 10% respectively.

The comparison between the pre-Hoyts and post-Hoyts acquisition results shows significant increases in the group's raw financial indicators. These include increase of 163% in total revenue, 151% increase in gross profits, 143% in net income, 121% in cash from operations, 451% in total assets and 386% in total equity. However, ROA and ROE decreased significantly. This is likely due to the impact of other business segments in the Wanda group. Again, the result shows that the Hoyts' financial performance does not affect the overall performance of the Wanda group significantly in the short-term. This is consistent with the view expressed in the Study 1 that the acquisition is long-term oriented.

Overall, the significant improvements in post-acquisition financial performance in Wanda's acquired subsidiaries is suggestive of business and financial intent. Hence, Proposition 2 is supported.

## **4.6 STUDY 3**

### **4.6.1 Data Collection**

This study utilizes film genres and box-office data to determine Wanda's motivations. The exhibition of commercial genres compared with non-commercial genres may suggest business and financial intent. In addition, an increase in the number of Chinese films exhibited post-acquisition and in box-office performance further suggest business and financial intent. On the other hand, weak financial performance coupled with more non-commercial genres may be indicative of political intent. The empirical relevance of the film results is limited to the extent of proposition exploration as it does not consider more nuanced and sophisticated features such as the effect of product placements and protagonists in films. In addition, I recognize that politically motivated films may be present in all genres and not just in documentary style films. However, previous research has found that while propaganda and politically motivated films may be packaged in numerous ways, they are most often found in documentary-style productions (Bennett, 2002).

Box-office data is collected from the Motion Picture Distributor's Association of Australia for Australian results and from the Internet Movie Database ([www.imdb.com](http://www.imdb.com)) for U.S. box-office results. In locating Chinese films exhibited in both Australia and the U.S., I filter the results as follows: 1) films produced between 2011 to 2016, 2) country of origin is China, 3) film is primarily spoken in Mandarin, and 4) no joint production with Hollywood studios.

The data includes, 1) the annual number of Chinese films exhibited in Australia and the U.S., 2) the box-office of Chinese films exhibited in Australia and the U.S., and 3) the number of commercial and non-commercial genres of Chinese films exhibited in Australia and U.S.

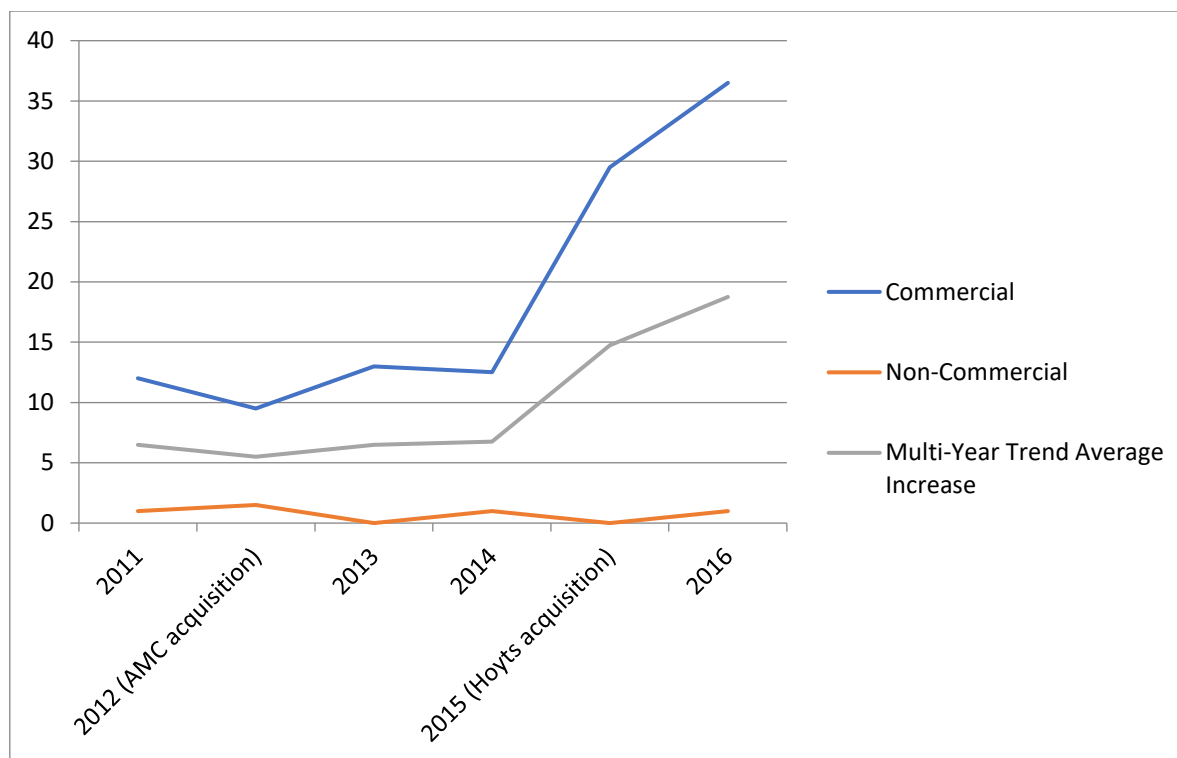
#### **4.6.2 Results**

##### ***Genre of Chinese Films Exhibited in Australia and U.S.***

In ascertaining political intent from the film data, I examined the genre of Chinese films being exhibited in U.S. and Australian cinemas between 2010 to 2016. Bennett (2002) notes that propaganda and politically motivated films are most often found in documentary-style productions. This is done to convince the viewer of a specific political point or to influence the opinions or behavior of the viewer, often by providing subjective content that may be deliberately misleading. As such, biographical and documentary films are coded as non-commercial genres. According to The Numbers, a leading online film data collection firm, the top five most popular film genres in the U.S. between 1995 to 2017 were adventure, comedy, action, drama and thriller/suspense, with a combined market share of over 86% of the U.S. market. As such, these genres are coded as commercial genres. Greater numbers of non-commercial genres shown in Western cinemas may evince political intent whereas more commercial genres suggest business and financial intent. Figure 4.1 illustrates the number of commercial vs. non-commercial genres of Chinese films exhibited in U.S. and Australian cinemas.

**Figure 4.1: Average Commercial and Non-Commercial Genres Exhibited in U.S. and Australian Cinemas**



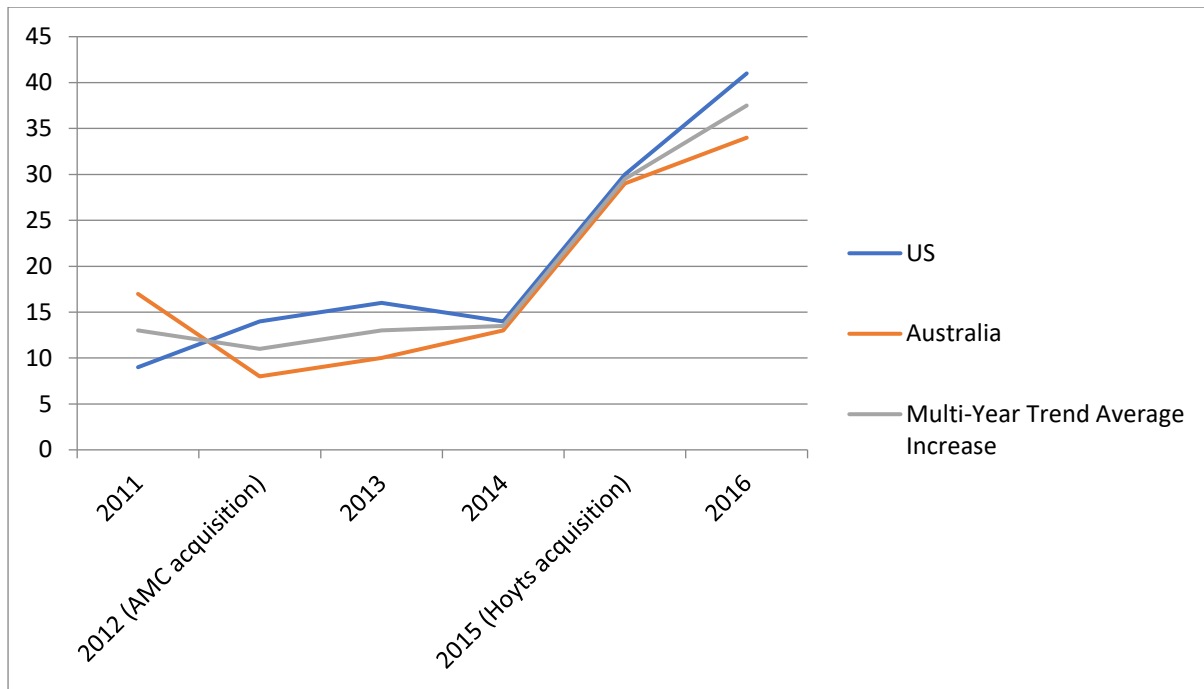


The results in Figure 3 show that Wanda films exhibited in U.S. and Australian cinemas are predominantly commercial genres. These results are consistent with the existing product offerings of major Hollywood studios. This tends to suggest that Wanda films are exhibited in the U.S. and Australian cinemas for predominantly commercial purposes. This is not to say that commercial genres do not have political intent. Rather, the genre of films exhibited in U.S. and Australian cinemas are designed primarily to cater to Western taste and to maximize box-office revenue.

#### ***Number of Chinese Films Exhibited in Australia and U.S.***

The film data reveals that the number of Wanda films exhibited in AMC and Hoyts has gradually increased post-acquisition. Figure 4.2 illustrates the increase in the number of Chinese films shown in U.S. and Australian cinemas from 2011 to 2016.

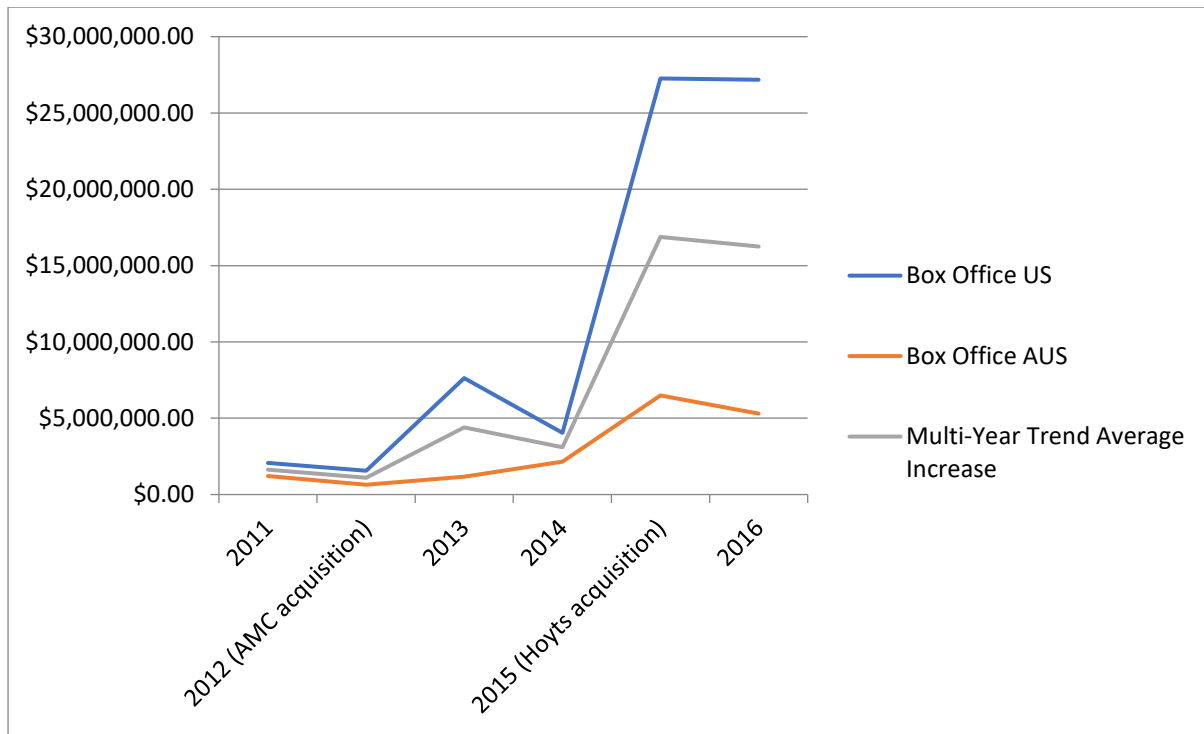
**Figure 4.2: Number of Chinese Films Exhibited in U.S. and Australian Cinemas**



Since Wanda's acquisition of AMC, the number of Chinese films exhibited in U.S. cinemas has grown over 350% from nine films in 2011 to 41 films in 2016. Likewise, since Wanda's acquisition of Hoyts, the number of Chinese films exhibited in Australia has increased over 160% from 13 films in 2014 to 34 films in 2016. Across the U.S. and Australia, the multi-year trend data reveals an average increase of 19.5 films per year from 2011 to 2016. These results suggest that the general trend in both U.S. and Australian cinemas is of a significant increase in the number of Chinese films.

The data further reveal an increasing acceptance of Chinese films by Western consumers from the box-office data. This is indicative of the growth in box-office revenue of Chinese films exhibited in both U.S. and Australian cinemas. Figure 4.3 below shows Chinese box-office revenue for the U.S. and Australian markets between 2011 to 2016.

**Figure 4.3: Total Chinese Box-Office in U.S. and Australian Cinemas**



The box-office results suggest that Chinese films are finding greater acceptance within Western audiences. In the U.S., the box-office results reveal an increase of over 1200% from 2011 to 2016. Likewise, during the same period in Australia, the box-office increased over 330%. The growth trajectory and pattern for box-office revenue in both the U.S. and Australia shows a combined average increase of over \$7.2 million annually from 2011 to 2016. The difference in the amount of box-office revenue between the U.S. and Australia is likely due to differences in market and population size.

These results strongly support the presence of business and financial intent, thus, indicating that Proposition 2 is supported.

#### 4.7 DISCUSSION

In this article, I have examined the strategic-intent of Wanda's Western cinema acquisitions to determine whether these acquisitions are made for business and financial intent or for political intent. The results reveal a lack of evidence to support Proposition 1. While the qualitative data in Study 1 may suggest various political intentions, the

consequences of these political intentions were not evident when assessed with more operational data in Study 2 and Study 3.

The results of the three studies reveal that there were 32 documents expounding political intent. In these documents, I found 87 quotes supporting political intent, of which 29 deals with government intervention in foreign transactions and 58 with soft-power considerations. Statements of political intent have predominantly been made by Wang and commentators and Chinese Government officials. The main theme of documents dealing with political intent is the spread of China's soft power through film; this theme is found in around 60% of the total number of documents which discuss political intent. On the other hand, 47 documents support business and financial matters, encompassing 139 quotes. The results reveal that 46 quotes deal with acquiring firm-specific advantage, 57 are about building competitive advantage, and 36 concerns competing by collaboration. These statements were mostly made by Wang and Wanda executives. The main themes of documents dealing with business and financial tensions were building global competitive advantage and competing by collaboration. Such themes can be found in over 68% of the total documents discussing business and financial intent.

Though the results do not conclusively support political intent at the operational level, political intent may yet be influential in the forming of business and financial strategy. I suggest that in the case of Wanda, there exist tensions between the exercise of business and financial intent with balancing political intentions (see Figure 4.4).

**Figure 4.4: Tensions Between Political Intent and Business and Financial Intent in Informing Corporate Strategy of Private Chinese Enterprises**

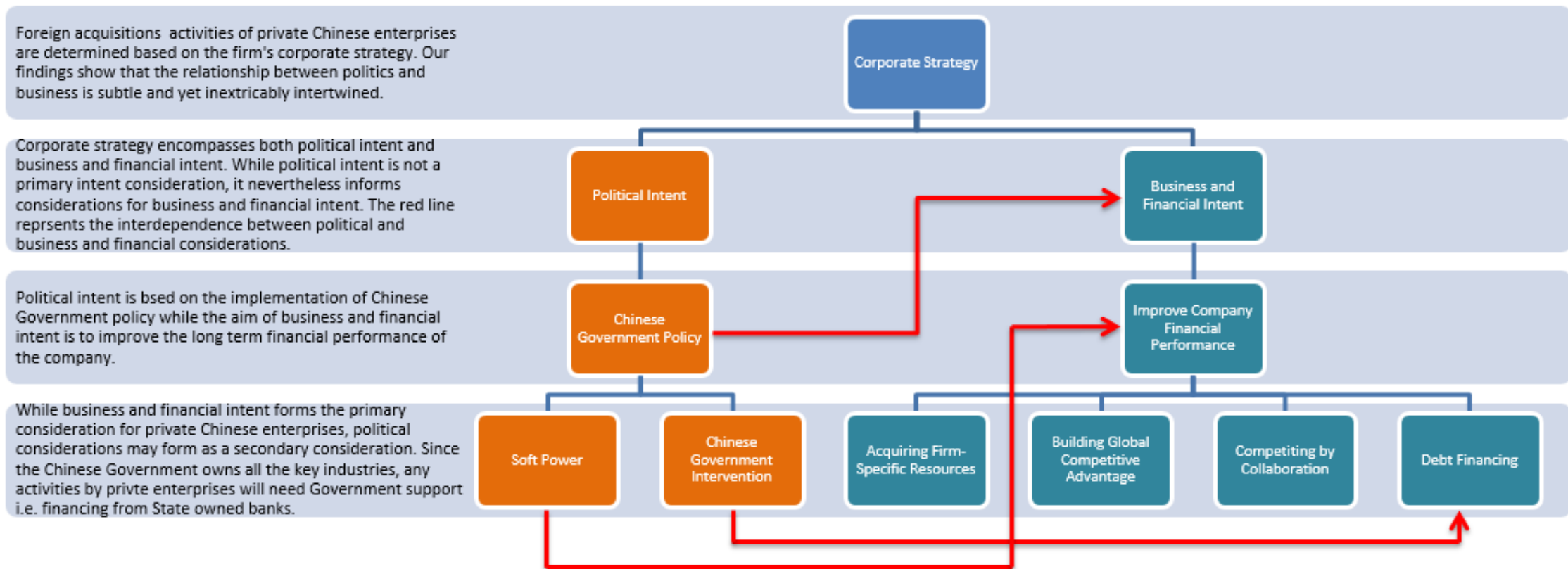


Figure 4.4 illustrates the interconnected nature of political intent with business and financial intent in forming Wanda's overall strategic objectives. The analysis shows that, from the perspective of business efficacy, Wanda's corporate strategy needs to align with China's national strategy. This allows the firm to walk in tandem with the Government's vision and be seen as supporting Government policy. The results suggest that Wanda's choice of investment and location choices are both good business decisions and reflect the strategy and long-term outlook of the Chinese Government. This is further evinced by changes made to Wanda's corporate strategy in adapting to changes in Government policy. I therefore suggest that the firm's focus on growing its cultural business reflects the Government's vision set out in the seventeenth Chinese Communist Party Conference in 2011, in which the Government renewed its focus to "*build our country into a socialist cultural superpower*".

The analysis further reveals that Proposition 1 is evident only in the qualitative data. The financial and film data cannot conclusively reveal the presence of political intent. On the other hand, business and financial intent is evident in all three datasets, strongly suggesting the presence of Proposition 2 in Wanda's Western cinema acquisitions. This is understandable given that Wanda is ultimately in the business of making money and providing a return to its shareholders.

While Proposition 1 is not fully supported from the financial and film data, its possible presence cannot be entirely dismissed. The qualitative data reveals the close interaction of corporate China and the Chinese Government. The lack of *prima facie* evidence to support the presence of political intent does not entirely rule out political intent in Wanda's business affairs; nevertheless, political intent is not supported by the current evidence.

***Are Foreign Acquisitions by Wanda in the Film Industry Driven by Political Intent?***

The results suggest that Wanda's political intent is used to inform its business and financial intent. This does not mean that Wanda's foreign acquisitions are motivated by politics, as its foreign acquisitions do not seek to achieve a specific political outcome. Rather, I find that Wanda's strategic-intent is designed to support existing Chinese Government policy where the firm's corporate strategy aligns with China's national objectives.<sup>2</sup>

Wanda is one of the first Chinese firms to make significant foreign acquisitions in the Western cultural sector. At the same time, the firm is rapidly developing China's domestic cultural sector. This approach is highly strategic given that the cultural sector can inform and export the nation's positive cultural narrative. Wanda's foreign acquisitions allow the firm to control an established distribution channel through which to distribute Chinese cultural content globally. In fact, one of Wanda's motivations for acquiring Western film assets is to tap into an existing customer base and learn to communicate directly with Western audiences. This allows Wanda to provide Western consumers with China's viewpoints, bypassing foreign governments. At the same time, Wanda can affect technology and knowledge transfer to its other business units and controlled entities. This is especially important given that pushing unpopular content through established distribution channels will not result in box-office success. Therefore, the establishment of Chinese infrastructure, technology, network channels, and expertise on the production stage is equally important for Wanda. All this is aimed to grant the firm a greater ability to inform the opinions of Western audiences on issues from a Chinese viewpoint. Combining its global film distribution network with strong film production capabilities means that Chinese films can be more

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<sup>2</sup> In 2017, the Chinese Government clamped down on three firms (Wanda, HNA and Anbang Insurance) who have borrowed heavily to make foreign acquisitions in the West. This was due to concerns by the Chinese Government about capital outflow and the risks of Chinese firms making irrational or risky investments abroad. In the case of Wanda, the financing restrictions placed on the firm meant that it was unable to complete its acquisition of Dick Clark Productions for USD\$1 billion. In an effort to further reduce debt, Wanda has also divested from various real estate projects in the UK and Australia as well as selling its stake in Spanish football club Atletico Madrid.

readily distributed in the West and compete effectively with Hollywood. This will allow Wanda to position itself as the gatekeeper for the Chinese film industry, as it has control of the only effective film distribution channel to Western markets. On balance, the current data suggests that political intent does not form a part of Wanda's strategy for undertaking foreign acquisitions. Hence, Proposition 1 is not supported. However, I find that the infrastructure and channels being set-up to enable content distribution into the West can ultimately be used for a dual purpose. As such, the dissemination of political content to Western consumers in future cannot be ruled out.

### ***Are Foreign Acquisitions by Wanda in the Film Industry Driven by Business and Financial Intent?***

The analysis reveals that Wanda's foreign acquisitions are predominantly motivated by the firm's goals to become a global corporate leader. Wanda utilizes foreign acquisitions as a quick and efficient way to acquire competitive advantage. The results show that, prior to Wanda's foreign acquisitions in the film industry, the firm lacked adequate advanced technology, a globally recognized brand, international management experience, and sales and distribution channels – all of which inhibited Wanda's continued growth. As such, I find that Wanda uses foreign acquisitions to seek strategic, firm-specific resources with which to compensate for their resource and competitive disadvantages. In doing so, Wanda leverages its ability to access large amounts of capital to acquire specialized technology, capability, networks, and expertise.

The firm sees its foreign acquisitions as a quick way to address domestic competitive disadvantage. Luo and Tung (2007) expound the concept of the “*common push factor*,” where firms use foreign acquisition to temper domestic competitive disadvantage. I find that this approach is evident in Wanda's foreign acquisitions but is used in a more complex



manner. By acquiring firm-specific advantages, Wanda can gain a competitive edge over the local competition. At the same time, Wanda sees an opportunity to use its large capital base to allow its acquired assets to quickly expand in the West, which provides these assets with a strategic advantage within their local markets. This two-pronged approach allows Wanda to grow across different markets simultaneously. I further suggest that the corporate culture of Wanda is one which is conducive to cross sharing of resources. This is important as I find that, since Wanda acquired AMC and Hoyts, its Chinese cinemas have been able to dramatically increase their sale of secondary revenue, which is because of knowledge acquired from the acquired assets.

The investment approach of Wanda is one that is independent, long-term, and designed to promote investor confidence and stability. Wanda takes a very hands-off approach in the management of acquired assets by retaining existing staff, branding, management and firm structure. To the uninitiated observer, these acquired assets will appear to be business as usual. Any changes introduced by Wanda through the acquired assets are often subtle and discreet. For example, these changes can include a gradual increase in the number of Chinese films shown in these cinemas or the introduction of better quality seating or overall venue experience. Wanda can effectively incorporate existing networks and distribution channels from its foreign acquisitions into its broader operations. The results show that, through close collaboration between its different business units and firms, Wanda can overcome institutional constraints by mobilizing and integrating the firm's technological and knowledge capacity. I also see that strong institutional incentives, reflected through Government support for foreign investment activities, provide confidence and affirm the firm's strategic vision. As such, Proposition 2 is supported.

I present one of the first firm-level studies examining alternative intent theories for the internationalization strategy of firms from emerging economies. This inductive mix

methods article reveals that, while Western acquisitions made by private Chinese firms are primarily based on business efficacy, political intent cannot be entirely ruled out. I find that the distinction between business and politics is less distinct and separate compared with that of Western firms. I also note that, in navigating the complex and politically charged business landscape in China, Chinese firms will seek to subscribe to the Government's political narrative in forming the firm's long-term business strategy. The findings suggest that Wanda's strategic-intent in acquiring Western film assets makes both good business sense and good political sense. I therefore posit that foreign acquisitions made by Chinese firms are first and foremost based on business and financial intent, which is informed by the prevailing political environment.

#### **4.8 IMPLICATIONS FOR THEORY**

The internationalization of Chinese firms is not new. Various studies have examined this phenomenon, focusing on SOE (Child and Rodrigues, 2005; and Deng, 2004). This article sheds new light on this subject in two distinct ways. First, I examined China's expanding cultural enterprise: a growing and unique industry which has so far received limited attention. Second, I examined this phenomenon from the lens of Wanda, a leading private Chinese enterprise.

This study contributes to existing ownership-to-performance theories and strategy-process and strategy-practice research. I provide new knowledge and deeper insight into the strategic-intent of private Chinese enterprises undertaking foreign acquisitions in the West. I identify both business and financial intent together with political intent and their inherent interdependencies. The research propositions developed here connect strategic-intent and corporate governance practices with political intent – an under-researched area of some

relevance to the strategic behavior of Chinese firms and to the broader strategic management scholarship.

#### **4.9 CONCLUSION**

This article has analyzed the strategic-intent of Wanda's foreign acquisitions in the context of its cinema business. It provides a basis for understanding the intent of foreign acquisitions made by Chinese firms in Western film. The three studies support the premise that business and financial intent forms the primary strategic-intent consideration. However, any intent based purely on business efficacy is mediated by Chinese Government policy. These priorities differ significantly from the foreign acquisition motivations of SOEs whose priorities are political rather than business or financial. These behaviors are mirrored through existing studies which consider strategic behavior, as in Aulakh and Kotabe (1997), Kim and Hwang (1992), and Kogut (1988). These motivations are driven and impacted by Wanda's ability to acquire, invest, and overcome any impact from changes to Chinese Government policy, both domestically and in the acquiring country. Given that Wanda is one of the first major privately owned Chinese conglomerates to make significant acquisitions in Western cultural industries (particularly in film), this study is limited in its scope. While the results are specific to Wanda, many of the issues and tensions identified between business and financial intent with political intent are applicable more broadly. It is envisaged that, with more private Chinese enterprises undertaking acquisitions in Western cultural industries, the results of this study may be substantiated and further strengthened.

## **5. CONCLUSION**

The focus of the previous chapters has been on exploring the relationship between ownership and innovation performance within the setting of the global creative industry. In each of the articles, I have explored a different dimension of ownership and its relationship with performance outcomes. Much attention has been paid in this thesis to different forms of ownership (such as content ownership, ownership of the value chain, and strategic ownership) within different sectors of the creative industry (such as in the film industry and virtual-worlds). This Chapter seeks to synthesize the findings of the five studies contained in this thesis. First, I summarize the major findings. Second, I discuss the implications of the findings for the main theoretical themes given. Third, I discuss implications for practice, particularly for managers and organizations operating within the creative industry. Finally, this thesis offers suggestions for future research.

### **5.1 MAIN FINDINGS**

The findings generally show that within the context of the creative industry, ownership has a positive effect on performance. Chapter 2 focused on how ownership affects user-innovation and entrepreneurship within the virtual-world environment. This study showed that virtual-worlds have become an arena for user-generated innovation enabling a new wave of entrepreneurs to extract real-world value from virtual property. The study conceptualized virtual-world ownership into two layers: 1) the content, and 2) the virtual platform. I used in-depth case-studies of ownership related disputes from virtual-world user-innovators to understand the role of ownership ambiguity in relation to success in a virtual-environment. The findings of this study revealed that the separation of content and platform ownership and their inherent interdependencies are a source of ownership tensions posing significant challenges to virtual-world entrepreneurs. In addition, the virtual-world business

model favors the platform's ownership rights while undermining other kinds of competing ownership interests (such as those of the content owner). The findings show that the current business structures of virtual-worlds around ownership rights and control appears to be detrimental for successful business creation, profitable technology development and long-term user-innovation success. Through this study, I showed how competing and unresolved ownership tensions can have a negative effect on innovation performance.

Chapter 3 focused on how ownership of the value chain affects box-office performance of films. This study examined the performance outcomes for bringing motion-pictures to market from integration of the supply chain through ownership. A cross sectional study using multiple regression analysis was employed comprising data of matched film samples produced by both integrated and non-integrated value chains to better understand the performance implications of ownership on content performance at the box-office. The results of this study indicate that vertical integration does have a positive effect on box-office performance. I find that Hollywood films invariably exhibit superior performance at the box-office due to its dominance over the global film market. However, the analysis indicates that comparable films produced through vertical integration significantly mitigates Hollywood's dominance during the first week post release and in later week cycles of the film's exhibition life cycle. These are the most critical periods for predicting a film's overall financial success. These results are both statistically and economically significant. While this study shows that performance improvements are less significant during the middle of a film's exhibition life cycle, this period is not a major indicator of a film's overall success.

Chapter 4 focused on the strategic-intent of Chinese acquisitions in the Western cinema industry. In particular, the studies focused on the Chinese conglomerate Dalian Wanda's recent acquisitions in the Western film industry (notably in Australia, Europe and North America). This Chapter sought to explore alternative intent theories and explore

propositions based primarily on business and financial and political intent motivations in Wanda's takeover behavior. I employed in-depth inductive analysis through three unique studies to triangulate key motivators for Wanda's foreign acquisition behavior. The findings of this Chapter revealed that business and financial intent indeed forms the primary strategic-intent consideration influencing Wanda's intent motivations. However, the article also shows that for private Chinese firms such as Wanda, any strategic-intent objectives based purely on business efficacy must be mediated by domestic Government policy to a greater extent than their Western counterpart due to the Chinese Government's tight market control.

## **5.2 IMPLICATIONS FOR THE MAIN THEORETICAL THEMES**

A major theme of this thesis is the determination of how and in what way ownership affects performance outcomes for both firms and entrepreneurs. Previous literature has shown mixed results in terms the performance benefits achieved through ownership (Baker et al., 2002; Bergström, 1999; Eisenberg, 1999; Crabb, 2005). Existing literature has argued that such divergence in results is due to two factors. First, the ownership-to-performance relationship is dependent on the industry effect (Hu and Izumida, 2008). Second, the way that ownership-to-performance is measured may also impact on the result (Isaksen et al., 2011). As such, this thesis took a multi-faceted approach in understanding this question by exploring this issue from different perspectives and using different methodologies and estimation techniques within the context of the broader creative industry.

Through the five studies presented as part of this thesis, I generally find that ownership has a significant impact on performance within the creative industry. In Chapter 2, I find that competing ownership tensions negatively affect user-innovation success. In Chapter 3, I find that ownership of the value chain for film production mediates the dominant performance of Hollywood films at the box-office. And in Chapter 4, the findings show that

private firms from China improve their financial performance when they seek out strategic assets in the Western cultural industry.

The results of this thesis suggest that the relationship between ownership and performance are dependent on several factors. First, the governance environment (such as communities, political environments, cultures and ideologies, industry organization, financial markets and laws) in which the firm operates. Second, how ownership structure is measured. And third, how performance is measured.

A second theme of this thesis is the contribution to the digital and virtual entrepreneurship theories. Chapter 2 built a comprehensive ownership tension framework to study success of user-innovators with the virtual-environment. The results identify the ownership tensions and the resulting power play in favor of the platform. I find that the uneven playing field between the platform and content owners results in significant inhibitions on long-term and sustainable user-innovation success. This study represents the first-time ownership and user-innovation performance in the virtual-world have been identified and explored in detail.

A third theme of this thesis is the contribution to strategy-process and strategy-practice research. Chapter 4 of this thesis provides new knowledge and deeper insight into the strategic-intent of private Chinese enterprises undertaking foreign acquisitions in the West. I identify both business and financial intent together with political intent and their inherent interdependencies. The research propositions developed here connect strategic-intent and corporate governance practices with political intent, an under researched area of some relevance to the strategic behavior of Chinese firms and to the broader strategic management scholarship.

### **5.3 IMPLICATION FOR PRACTICE**

The results of this thesis have several implications for managers, firms and entrepreneurs. Overall, this thesis aims to assist managers in the creative industry make better decisions around ownership structure: such as identifying ownership tensions, knowing whether to vertically integrate and whether to acquire foreign assets. While this thesis is focused on the creative industry, many of the practical implications are applicable to managers, firms and entrepreneurs from other comparable industries.

First, in Chapter 2, the limitations to user-innovation using the current ownership structure of virtual-worlds may assist platforms with designing and implementing a more liberal governance structure which eliminates or at least reduces the tensions between user-innovators and the platform. The findings suggest that regulation needs to be created at a higher, more universal level that enshrines and protects user rights from broad interference by the platform. I posit that the protection of user property rights in the legal system will potentially level the playing field and address key tensions around the power imbalance between the users and platform.

Second, Chapter 3 has practical implications for rival film industries or studios that wish to compete with Hollywood. The fact that vertical integration has been shown to impact critical periods of the film life cycle indicates that replication of this strategy may benefit smaller film studios or nations who wish to increase their market share of the global film market. This study shows that vertical integration may be an effective long-term strategy to improve firm performance where 1) the market is risky and unstable; 2) firms in adjacent stages of the industry value chain have greater market power; 3) Integration would create or exploit market power by raising barriers to entry or allowing price discrimination across customer segments; and 4) where it's a new market, firms need to forward integrate in order to develop the new market value chain for bring products to market. I further posit that



vertical integration may be used as a strategy to seize opportunities and extend existing capabilities in order to cope with a competitive business environment.

Third, Chapter 4 provides implications for creative industry firms from emerging economies who may wish to undertake foreign acquisition as a way of accelerated growth. This article shows that Wanda's acquisitions in the Western cinema and film markets have yielded significant performance benefits for the firm and allowed it to effectively compete with local competition by gaining a competitive advantage through the acquisition of firm-specific resources. The results of this study provide practical implications for both firms wishing to operate inside China and Chinese firms seeking to undertake foreign acquisitions in Western economies. I posit that in China, the distinction between business and politics is less distinct and separate compared with Western nations. I note that in navigating the complex and politically charged business landscape in China, Chinese firms will seek to subscribe to the Government's political narrative in forming its long-term business strategy.

## **5.4 FURTHER RESEARCH**

While much is already known about the relationship between ownership and performance, there are still areas that require further research. Through this thesis, I believe three areas require further study and understanding.

First, in Chapter 2, I measure ownership to innovation performance within the virtual-world by using legal forms of protection. Not all entrepreneurs and firms protect their assets and innovation performance through legal means. Some may prefer to keep their expertise as trade secrets or implement mechanisms for protecting innovations. It is yet unclear what mechanisms most effectively translate virtual-world user-innovation into wealth creation, other underlying factors may function as a critical linkage between user-innovation and value realization. Future research may therefore need to explore why user-innovators with

outstanding innovation performance within the virtual-world fail to increase their wealth in a timely manner.

In addition, the study only identifies the specific tensions evident between the platform and user-innovators. Further research may be done in developing a governance structure which eliminates or reduces these tensions.

Second, in Chapter 3, I briefly touched on the growth of new mediums such as Netflix, Hulu and other online streaming services which are competing directly with Hollywood. These new online streaming services are often integrated. Future research could explore whether similar performance benefits exist in the ownership structure of online streaming services compared with Hollywood studios.

In addition, this study found that the performance of films at the box-office forms only a portion of the total cost benefit analysis associated with vertical integration. The market-mitigating mechanism of vertical integration practiced by firms in the global film industry will invariably pose its own form of risks, set-up costs and operating costs associated with maintaining a vertically integrated firm structure. Future research endeavor in this light may work toward examining the potential risk and cost associated with vertical integration strategies and the performance of any secondary revenue resulting from films produced via a vertically integrated model to develop a more comprehensive cost-benefit framework.

Third, Chapter 4 identified the intent motivations of Wanda's foreign acquisitions. I found that Wanda's financial performance improved post-acquisition. Given that existing research suggests a large proportion of mergers fail to produce their intended performance improvements, future research may consider Wanda's process for selecting firms in overseas markets as targets for acquisition.

The objective of this thesis was to examine the relationship between ownership and performance within the creative industry. The results suggest ownership plays a significant role in influencing performance outcomes for firms and entrepreneurs within the creative industry. The findings in this thesis support and strengthen earlier studies which have found a positive relationship between ownership and performance.

The results indicate that ownership significantly impact performance within the global creative industry. Given the diversity of empirical studies and subsequent results, additional research is needed to further test both the nature and consistency of the ownership-to-performance relationship within different industries. This thesis aims to encourage other researchers to investigate this phenomenon further in order to create a theoretical framework applicable across all industries on how ownership can lead to organizational success.

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